

Metropolitan and United States Park Police forces.

ADJOURNMENT

Mr. HOBBS. Mr. Speaker, I move that the House do now adjourn.

The motion was agreed to; accordingly (at 4 o'clock and 25 minutes p. m.) the House adjourned until tomorrow, Tuesday, October 6, 1942, at 12 o'clock noon.

COMMITTEE HEARINGS

COMMITTEE ON PATENTS

The Committee on Patents of the House of Representatives will hold hearings beginning Tuesday, October 13, 1942, at 10 a. m., in the committee room, 1015 House Office Building, on H. R. 7620, a bill to provide for adjusting royalties for the use of inventions for the benefit of the United States, and for other purposes.

EXECUTIVE COMMUNICATIONS, ETC.

Under clause 2 of rule XXIV, executive communications were taken from the Speaker's table and referred as follows:

1955 A letter from the Acting Secretary of the Navy, transmitting a draft of a proposed bill for the relief of Capt. Richard Rothwell, United States Marine Corps; to the Committee on Claims.

1956 A letter from the Acting Secretary of the Interior, transmitting a draft of a proposed bill to authorize the Secretary of the Interior to purchase logs, lumber, and other forest products; to the Committee on Indian Affairs.

REPORTS OF COMMITTEES ON PUBLIC BILLS AND RESOLUTIONS

Under clause 2 of rule XIII, reports of committees were delivered to the Clerk for printing and reference to the proper calendar, as follows:

Mr. ROBINSON of Utah: Committee on the Public Lands. H. R. 7638. A bill to restore and add certain public lands to the Uintah and Ouray Reservation in Utah, and for other purposes; without amendment (Rept. No. 2516) Referred to the Committee of the Whole House on the state of the Union.

PUBLIC BILLS AND RESOLUTIONS

Under clause 3 of rule XXII, public bills and resolutions were introduced and severally referred as follows:

By Mr. CRAWFORD:

H. R. 7656. A bill to regulate rents of business property in the District of Columbia, and for other purposes; to the Committee on the District of Columbia.

By Mr. HARTER:

H. R. 7657. A bill to authorize the placing of honor rolls in post offices; to the Committee on the Post Office and Post Roads.

PRIVATE BILLS AND RESOLUTIONS

Under clause 1 of rule XXII,

Mr. REES of Kansas introduced a bill (H. R. 7658) granting a pension to Raymond V. Johnson, which was referred to the Committee on Invalid Pensions.

PETITIONS, ETC.

Under clause 1 of rule XXII,

3359 Mr. SHORT presented a petition of sundry citizens of Howell County, Mo., petitioning consideration of their resolution with reference to Senate bill 860, which was referred to the Committee on Military Affairs.

SENATE

TUESDAY, OCTOBER 6, 1942

(Legislative day of Monday, October 5, 1942)

The Senate met at 11 o'clock a. m., on the expiration of the recess.

Rev. Edward B. Harris, vicar, Good Shepherd Episcopal Church, Washington, D. C., offered the following prayer:

O Lord God, who alone dost govern the affairs of men, guide, we beseech Thee, those to whom, in Thy providence, Thou has committed the government of this Nation. Grant to them special gifts of wisdom and understanding, of counsel, and strength, that, upholding what is right and following what is true, they may lead this Nation in the path of righteousness and honor, to the glory of Thy holy name. Through Jesus Christ, our Lord. Amen.

THE JOURNAL

On request of Mr. BARKLEY, and by unanimous consent, the reading of the Journal of the proceedings of the calendar day Monday, October 5, 1942, was dispensed with, and the Journal was approved.

MESSAGES FROM THE PRESIDENT— APPROVAL OF A BILL

Messages in writing from the President of the United States were communicated to the Senate by Mr. Miller, one of his secretaries, who also announced that on October 3, 1942, the President had approved and signed the act (S. 2689) to amend the act entitled "An act to incorporate St. Ann's Infant Asylum, in the District of Columbia," approved March 3, 1863 (12 Stat. 793).

STABILIZATION OF NATIONAL ECONOMY

Mr. BARKLEY. Mr. President, I ask unanimous consent to have printed in the CONGRESSIONAL RECORD the Executive order issued by the President on last Saturday providing for the stabilization of the national economy. I also ask consent that the statement emanating from the White House at the time the order was promulgated be printed following the order itself.

The VICE PRESIDENT. Is there objection?

There being no objection, the Executive order and statement were ordered to be printed in the RECORD as follows:

EXECUTIVE ORDER PROVIDING FOR THE STABILIZATION OF THE NATIONAL ECONOMY

By virtue of the authority vested in me by the Constitution and the statutes, and particularly by the Act of October 2, 1942, entitled "An Act to Amend the Emergency Price Control Act of 1942, to Aid in Preventing Inflation, and for Other Purposes," as President of the United States and Commander in Chief of the Army and Navy, and in order to control so far as possible the inflationary tendencies and the vast dislocations attendant thereon which threaten our military effort and our domestic economic structure, and for the more effective prosecution of the war, it is hereby ordered as follows:

TITLE I. ESTABLISHMENT OF AN OFFICE OF ECONOMIC STABILIZATION

1. There is established in the Office for Emergency Management of the Executive

Office of the President an Office of Economic Stabilization at the head of which shall be an Economic Stabilization Director (hereinafter referred to as the Director)

2. There is established in the Office of Economic Stabilization an Economic Stabilization Board with which the Director shall advise and consult. The Board shall consist of the Secretary of the Treasury, the Secretary of Agriculture, the Secretary of Commerce, the Secretary of Labor, the Chairman of the Board of Governors of the Federal Reserve System, the Director of the Bureau of the Budget, the Price Administrator, the Chairman of the National War Labor Board, and two representatives each of labor, management, and farmers to be appointed by the President. The Director may invite for consultation the head of any other department or agency. The Director shall serve as Chairman of the Board.

3. The Director, with the approval of the President, shall formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters—all for the purpose of preventing avoidable increases in the cost of living, cooperating in minimizing the unnecessary migration of labor from one business, industry, or region to another, and facilitating the prosecution of the war. To give effect to this comprehensive national economic policy the Director shall have power to issue directives on policy to the Federal departments and agencies concerned.

4. The guiding policy of the Director and of all departments and agencies of the Government shall be to stabilize the cost of living in accordance with the act of October 2, 1942; and it shall be the duty and responsibility of the Director and of all departments and agencies of the Government to cooperate in the execution of such administrative programs and in the development of such legislative programs as may be necessary to that end. The administration of activities related to the national economic policy shall remain with the departments and agencies now responsible for such activities, but such administration shall conform to the directives on policy issued by the Director.

TITLE II. WAGE AND SALARY STABILIZATION POLICY

1. No increases in wage rates, granted as a result of voluntary agreement, collective bargaining, conciliation, arbitration, or otherwise, and no decreases in wage rates, shall be authorized unless notice of such increases or decreases shall have been filed with the National War Labor Board, and unless the National War Labor Board has approved such increases or decreases.

2. The National War Labor Board shall not approve any increase in the wage rates prevailing on September 15, 1942, unless such increase is necessary to correct maladjustments or inequalities, to eliminate standards of living, to correct gross inequities, or to aid in the effective prosecution of the war.

Provided, however, that where the National War Labor Board or the Price Administrator shall have reason to believe that a proposed wage increase will require a change in the price ceiling of the commodity or service involved, such proposed increase, if approved by the National War Labor Board, shall become effective only if also approved by the Director.

3. The National War Labor Board shall not approve a decrease in the wages for any particular work below the highest wages paid therefor between January 1, 1942, and September 15, 1942, unless to correct gross inequities and to aid in the effective prosecution of the war.

4. The National War Labor Board shall, by general regulation, make such exemptions

from the provisions of this title in the case of small total wage increases or decreases as it deems necessary for the effective administration of this order.

5. No increases in salaries now in excess of \$5,000 per year (except in instances in which an individual has been assigned to more difficult or responsible work), shall be granted until otherwise determined by the Director.

6. No decrease shall be made in the salary for any particular work below the highest salary paid therefor between January 1, 1942, and September 15, 1942, unless to correct gross inequities and to aid in the effective prosecution of the war.

7. In order to correct gross inequities and to provide for greater equality in contributing to the war effort, the Director is authorized to take the necessary action and to issue the appropriate regulations, so that insofar as practicable, no salary shall be authorized under title III, section 4, to the extent that it exceeds \$25,000 after the payment of taxes allocable to the sum in excess of \$25,000. Provided, however, that such regulations shall make due allowance for the payment of life-insurance premiums on policies heretofore issued, and required payments on fixed obligations heretofore incurred, and shall make provision to prevent undue hardship.

8. The policy of the Federal Government, as established in Executive Order No. 9017, of January 12, 1942, to encourage free collective bargaining between employers and employees is reaffirmed and continued.

9. Insofar as the provisions of clause (1) of section 302 (c) of the Emergency Price Control Act of 1942 are inconsistent with this order, they are hereby suspended.

TITLE III. ADMINISTRATION OF WAGE AND SALARY POLICY

1. Except as modified by this order, the National War Labor Board shall continue to perform the powers, functions, and duties conferred upon it by Executive Order No. 9017, and the functions of said board are hereby extended to cover all industries and all employees. The National War Labor Board shall continue to follow the procedures specified in said Executive order.

2. The National War Labor Board shall constitute the agency of the Federal Government authorized to carry out the wage policies stated in this order, or the directives on policy issued by the Director under this order. The National War Labor Board is further authorized to issue such rules and regulations as may be necessary for the speedy determination of the propriety of any wage increases or decreases in accordance with this order, and to avail itself of the services and facilities of such State and Federal departments and agencies as, in the discretion of the National War Labor Board, may be of assistance to the board.

3. No provision with respect to wages contained in any labor agreement between employers and employees (including the shipbuilding stabilization agreements as amended on May 16, 1942, and the wage stabilization agreement of the building construction industry arrived at May 22, 1942) which is inconsistent with the policy herein enunciated or hereafter formulated by the Director shall be enforced except with the approval of the National War Labor Board within the provisions of this order. The National War Labor Board shall permit the shipbuilding stabilization committee and the wage adjustment board for the building construction industry, both of which are provided for in the foregoing agreements, to continue to perform their functions therein set forth, except insofar as any of them is inconsistent with the terms of this order.

4. In order to effectuate the purposes and provisions of this order and the act of October 2, 1942, any wage or salary payment made in contravention thereof shall be disregarded

by the executive departments and other governmental agencies in determining the costs or expenses of any employer for the purpose of any law or regulation, including the Emergency Price Control Act of 1942 or any maximum price regulation thereof, or for the purpose of calculating deductions under the revenue laws of the United States or for the purpose of determining costs or expenses under any contract made by or on behalf of the Government of the United States.

TITLE IV. PRICES OF AGRICULTURAL COMMODITIES

1. The prices of agricultural commodities and of commodities manufactured or processed in whole or substantial part from any agricultural commodity shall be stabilized, so far as practicable, on the basis of levels which existed on September 15, 1942, and in compliance with the act of October 2, 1942.

2. In establishing, maintaining, or adjusting maximum prices for agricultural commodities or for commodities processed or manufactured in whole or in substantial part from any agricultural commodity, appropriate deductions shall be made from parity price or comparable price for payments made under the Soil Conservation and Domestic Allotment Act, as amended, parity payments made under the Agricultural Adjustment Act of 1938, as amended, and governmental subsidies.

3. Subject to the directives on policy of the Director, the price of agricultural commodities shall be established or maintained or adjusted jointly by the Secretary of Agriculture and the Price Administrator; and any disagreement between them shall be resolved by the Director. The price of any commodity manufactured or processed in whole or in substantial part from an agricultural commodity shall be established or maintained or adjusted by the Price Administrator, in the same administrative manner provided for under the Emergency Price Control Act of 1942.

4. The provisions of sections 3 (a) and 3 (c) of the Emergency Price Control Act of 1942 are hereby suspended to the extent that such provisions are inconsistent with any or all prices established under this order for agricultural commodities, or commodities manufactured or processed in whole or in substantial part from an agricultural commodity.

TITLE V. PROFITS AND SUBSIDIES

1. The Price Administrator in fixing, reducing, or increasing prices, shall determine price ceilings in such a manner that profits are prevented which in his judgment are unreasonable or exorbitant.

2. The Director may direct any Federal department or agency including, but not limited to, the Department of Agriculture (including the Commodity Credit Corporation and the Surplus Marketing Administration), the Department of Commerce, the Reconstruction Finance Corporation, and other corporations organized pursuant to section 5d of the Reconstruction Finance Corporation Act, as amended, to use its authority to subsidize and to purchase for resale, if such measures are necessary to insure the maximum necessary production and distribution of any commodity, or to maintain ceiling prices, or to prevent a price rise inconsistent with the purposes of this order.

TITLE VI. GENERAL PROVISIONS

1. Nothing in this order shall be construed as affecting the present operation of the Fair Labor Standards Act, the National Labor Relations Act, the Walsh-Healey Act, the Davis-Bacon Act, or the adjustment procedure of the Railway Labor Act.

2. Salaries and wages under this order shall include all forms of direct or indirect remuneration to an employee or officer for work or personal services performed for an em-

ployer or corporation, including but not limited to, bonuses, additional compensation, gifts, commissions, fees and any other remuneration in any form or medium whatsoever (excluding insurance and pension benefits in a reasonable amount as determined by the Director); but for the purpose of determining wages or salaries for any period prior to September 16, 1942, such additional compensation shall be taken into account only in cases where it has been customarily paid by employees to their employers. "Salaries" as used in this order means remuneration for personal services regularly paid on a weekly, monthly, or annual basis.

3. The Director shall, so far as possible, utilize the information, data, and staff services of other Federal departments and agencies which have activities or functions related to national economic policy. All such Federal departments and agencies shall supply available information, data, and services required by the Director in discharging his responsibilities.

4. The Director shall be the agency to receive notice of any increase in the rates or charges of common carriers or other public utilities as provided in the aforesaid act of October 2, 1942.

5. The Director may perform the functions and duties, and exercise the powers, authority, and discretion conferred upon him by this order through such officials or agencies, and in such manner, as he may determine. The decision of the Director as to such delegation and the manner of exercise thereof shall be final.

6. The Director, if he deems it necessary, may direct that any policy formulated under this order shall be enforced by any other department or agency under any other power or authority which may be provided by any of the laws of the United States.

7. The Director, who shall be appointed by the President, shall receive such compensation as the President shall provide, and within the limits of funds which may be made available, may employ necessary personnel and make provision for supplies, facilities, and services necessary to discharge his responsibilities.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, October 3, 1942.

WHITE HOUSE STATEMENT

The text of the White House statement on price- and wage-control measures follows:

"The President, last night, immediately after signing the anti-inflation bill passed by Congress yesterday, instructed Price Administrator Henderson to fix rent ceilings throughout the entire United States in all areas, city and rural alike. A copy of this letter to the Price Administrator is attached.

"He also issued instructions to the Price Administrator to place ceilings immediately upon all agricultural commodities which were exempt, under the original Emergency Price Control Act, but which are no longer exempt under the statute passed yesterday.

"These commodities include chickens, eggs, cheese, butter, potatoes, and flour. A copy of the President's letter is attached hereto.

"MOVE WILL HELP WIN WAR

"The President issued the following statement with reference to the statute:

"The Congress has done its part in helping substantially to stabilize the cost of living. The new legislation removes the exemption of certain foods, agricultural commodities, and related products from the price controls of the Emergency Price Control Act, with the result that I have today taken action to stabilize 90 percent of the country's food bill. It leaves the parity principle unimpaired; it reaffirms the powers of the Executive over wages and salaries; it establishes a floor for wages and for farm prices.

"I am certain that from now on this substantial stabilization of the cost of living will assist greatly in bringing the war to a successful conclusion, will make the transition to peace conditions easier after the war, and will receive the wholehearted approval of farmers, workers, and housewives in every part of the country."

"Today the President signed an Executive order relating to wages, salaries, profits, and farm prices. A copy of the Executive order is attached."

"The President today announced the appointment of Mr. Justice James F. Byrnes as the Director of Economic Stabilization. Mr. Justice Byrnes has resigned from the Supreme Court to accept this position."

"The President, in announcing the appointment of Justice Byrnes, said:

"Justice Byrnes is one of the foremost authorities in governmental administration in the United States. He knows the economic problems of this country whether they concern labor, the farmer, the consumer, the small retail store, or the manufacturer. I would never have asked him to resign from the Supreme Court were it not for the fact that this job is one of the most important positions in this country. I know the American people can be sure that in keeping down the cost of living he will be fair to everyone."

"This position calls primarily for judicial consideration. The organization will be small because the administrative action will be carried out by the existing agencies."

"Justice Byrnes' patriotic action in accepting this appointment deserves the praise and commendation of all our citizens."

"DETERMINED TO KEEP PRICES DOWN"

"The President today addressed two letters to Leon Henderson, Administrator, Office of Price Administration, the texts of which follow:

"I have signed the cost-of-living stabilization bill."

"I wish that you would consult with the Secretary of Agriculture and immediately establish ceiling prices for eggs, chickens, butter, cheese, potatoes, flour, and such other foods as can be controlled under existing laws."

"In line with my recent message to the Congress, you should consider present governmental payments to agricultural producers and subsidy payments in arriving at the minimum ceiling prices."

"This Government is determined to use all of its powers to prevent any avoidable rise in the cost of living."

"That part of the Nation which has not yet been designated within defense rental areas should now be so treated. We should make no distinction between city or country as to their participation in the total war effort. Certainly the contribution of agriculture to the effective prosecution of the war is clear. Therefore, our rural population equally deserves to have its rents stabilized."

"I wish you would immediately issue appropriate orders to prevent rent increases on urban and rural dwellings. In such areas as you deem appropriate to reduce current rents, I am sure you will proceed to take such action as may be necessary."

PETITIONS

Petitions were presented, and referred as indicated:

By Mr. HATCH:

A petition of sundry citizens of Santa Fe County, N. Mex., praying for the enactment of Senate bill 860, to prohibit the sale of alcoholic liquor and to suppress vice in the vicinity of military camps and naval establishments; ordered to lie on the table.

By Mr. CAPPER:

A petition, numerously signed, of sundry citizens of Meade, Kans., praying for the

enactment of Senate bill 860, to prohibit the sale of alcoholic liquor and to suppress vice in the vicinity of military camps and naval establishments; ordered to lie on the table.

PROHIBITION OF LIQUOR SALES AND SUPPRESSION OF VICE AROUND MILITARY CAMPS—PETITIONS

Mr. WHEELER. I ask consent to present for appropriate reference and printing in the RECORD, without all the signatures attached thereto, a petition sent to me by 150 members and delegates of the Flathead County Federation of Women's Clubs, in session at Kalispell, Mont., praying for the enactment of Senate bill 860, to prohibit the sale of alcoholic liquor and to suppress vice in the vicinity of military camps and naval establishments.

There being no objection, the petition was ordered to lie on the table and to be printed in the RECORD without all the signatures attached thereto, as follows:

KALISPELL, MONT., September 30, 1942.

Senator BURTON K. WHEELER,
Washington, D. C.

DEAR SENATOR WHEELER: As our Government has seen fit to conscript our young men into war service all over the world, we, the members and delegates of the Flathead County Federation of Women's Clubs in session this 30th day of September, in Kalispell, Mont., do urgently request that your active interest be given to the passage of Senate bill 860, that the young men now on these world fronts may be protected from the most vicious enemies they will confront, liquor and prostitution. They were selected because they were physically and mentally fit. Please use your good offices that they may be kept so.

We also demand that the huge amount of liquor now stored in our country by the distillers, be made available to the Government to use in furthering the war effort; and that war-time prohibition be enacted into law, both at home and wherever American troops are stationed.

IVY HARDIE,
President of Flathead County
Federation of Women's Clubs.
MRS. GLEN BOYD,
Treasurer,

RHODA G. PROUGH,
Secretary; and sundry other
members of the Women's Clubs.

Mr. MURRAY. Mr. President, I ask consent to present for printing in the RECORD and appropriate reference a very important petition from the Flathead County Federation of Women's Clubs, of Kalispell, Mont., dealing with a subject of grave consequence to the Nation.

There being no objection to its reception and reference, the petition presented by Mr. MURRAY (identical with the foregoing petition presented by Mr. WHEELER) was ordered to lie on the table.

Mr. REYNOLDS presented and asked to have printed in the RECORD and appropriately referred a letter in the nature of a petition signed by the pastors and adopted at a union service held by several churches of Albemarle, N. C., praying for the enactment of Senate bill 860, to prohibit the sale of alcoholic liquor and to suppress vice in the vicinity of military camps and naval establishments; and, there being no objection, the letter in the nature of a petition was re-

ceived, ordered to lie on the table, and to be printed in the RECORD, as follows:

SEPTEMBER 15, 1942.

HON. ROBERT R. REYNOLDS,
Chairman, Senate Military Affairs Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR REYNOLDS: We are writing to you, not personally, but officially, as chairman of the Senate Committee on Military Affairs.

At a union service of several churches of Albemarle, N. C., at the Central Methodist Church on September 6, the assembled congregation requested the pastors of the churches represented to write to you, stating that those present at the service desire you to present to the Senate of the United States the action voted by the congregation in favor of the prompt passage of Senate bill No. 860, or of protective legislation for our armed forces from the liquor and vice traffic similar to that which was enacted in 1917. You are also requested to read this action taken by the congregation on the floor of the Senate, that it may be incorporated in the CONGRESSIONAL RECORD.

Very truly yours,

R. DWIGHT WARE, pastor, Central Methodist Church; J. E. Yountz, pastor, Main Street Methodist Church; G. N. Dulin, pastor, First Street Methodist; Ben Joe Earp, pastor, Congregational Christian Church; C. D. Whiteley, Second Presbyterian Church; W. J. Brodley, pastor, First Baptist Church, Albemarle, N. C., president, Stanley County Ministerial Association; R. E. Watts, First Presbyterian Church; Geo. H. Rhodes, First Lutheran Church; W. B. Holmes, North Albemarle Baptist Church; George L. Hocutt, Norwood Baptist Church; T. S. Crutchfield, Fairview Baptist Church.

FARM LABOR—LETTERS AND PETITION FROM NORTH DAKOTA

Mr. LANGER. Mr. President, I ask unanimous consent to have printed in the RECORD a letter from Ferdinand Manz, of Martin, N. Dak., dated October 3, 1942; a letter from J. W. Enger, of Oakes, N. Dak., dated October 3, 1942; and a petition signed by 14 citizens of Hannaford, N. Dak., dated February 20, 1942, all pertaining to the farm-labor problem. I ask that the letters and petition may be appropriately referred.

There being no objection, the letters and petition were referred to the Committee on Military Affairs and ordered to be printed in the RECORD, as follows:

MARTIN, N. DAK., October 3, 1942.

MR. WILLIAM LANGER,
Washington, D. C.

MY DEAR SENATOR LANGER: I will not write you a long story this time because you might not want to spend your time on a long letter. I only thank God that we have a man like you in Washington, who knows all about North Dakota. Do you know, my dear friend, that we are having a hard time getting help to get our crops threshed this fall? About 60 percent of our crops are not threshed yet on account of shortage of help. One of my sons has to leave the 13th of October, and the second son they want to take, too. That will leave me and a 15-year-old boy on a 5/4 farm with 350 acres of land to cultivate, and then all the cows to milk and hogs to feed, and I am not a healthy man. I have been ill for over 4 years. I have three boys, one 22 years of age and one 21 years of age and one 15 years old, and I have three girls, one 17 years

of age and one 13 and one 10 years of age, and these three, one boy, 15, and two girls are of school age and should by rights go to school. But how can I send them to school with all this work that is left for one sick man to do? I might have to sell out if my second son has to go to the Army. Many farmers have already sold out because they could not get any help on the farm. It takes a healthy man to do a good day's work on the farm, and I am sure you know this, too. I had a talk with our draft board, but they said there is nothing they can do. They all have to go, farm or no farm. This would break me right now if I would have to give up the farm and sell out. If there is anything that you can do for us farmers so that we could at least have one good boy or man on the farm so that the farm wouldn't get ruined. I wouldn't be able to farm one-half the land next year that I have farmed this year, and only one-half the cows will be milked next year, and I write not for me alone but for our whole State of North Dakota. If you can, please do something to leave at least one good boy or man on each farm.

I am your friend, with many thanks for whatever you have done for us and will do yet.

Sincerely,

FERDINAND MANZ.

OAKES, N. DAK., October 3, 1942.

Senator Langer,
Washington, D. C.

DEAR BILL: Another group of farm boys leaves for the Army next week, 18 from this county, 7 of these have had flocks of poultry and cattle and hogs. They are selling all their breeding stock and are already hauling them to market rather than have some stranger take charge till they get back. You can't put kids and disabled old men in charge of livestock and tractor farming. If General Hershey don't wake up soon, it will be too late.

Some of you better show him what he has done or give him a ticket to the Northwest, so he can see that the Dakotas are not on the same basis as his home State. The farmers right now are more important than the Infantry. In the area that I cover something over 300 brood sows have been hauled to market since August 1.

I was out to a threshing rig yesterday and saw a half crew of farm boys, 13 to 16 years old, hauling bundles and these are the plain conditions all over the Northwest now. What will they do next spring? Farming and livestock raising in North Dakota will be reduced over 50 percent right now without taking any more men and it will take 3 to 4 years to replace them, and in some areas replacements are impossible. They better fill gaps with the R. O. T. C. and give them a taste of it before they mislead the farmers into battle.

Its O. K. to draft farm labor as Mr. Hershey has advised, but can you draft an inexperienced man to raise livestock when he don't know a white hog from a sheep?

Yours truly,

J. W. ENGER.

HANNAFORD, N. DAK., February 20, 1942.
Senator WILLIAM LANGER,
Washington, D. C.

DEAR SENATOR: We, the undersigned members of the Bartley-Helena Farmers Union, request that you urge Congress or the proper draft boards to defer drafting farm boy and other skilled farm workers for military service, as it would further cripple our already serious labor situation.

Sincerely,

J. M. LUNN AND OTHER CITIZENS.

REPORT OF THE COMMITTEE ON THE JUDICIARY

Mr. McCARRAN, from the Committee on the Judiciary, to which was referred

the bill (S. 2729) to authorize the filing of a short form of notice in certain United States courts to serve as constructive notice of the interest of the Government in realty or personalty under facilities contracts, reported it with amendments and submitted a report (No. 1632) thereon.

INSPECTION OF MILITARY ESTABLISHMENT IN WESTERN HEMISPHERE

Mr. REYNOLDS. I ask permission to report an original resolution from the Committee on Military Affairs authorizing that committee or a subcommittee thereof to make such investigation and inspection of the Military Establishment in the Western Hemisphere as it deems advisable. It is a very brief resolution, reading as follows:

Senate Resolution 298

Resolved, That the Committee on Military Affairs, or any subcommittee thereof duly appointed by the chairman of the committee, hereby is authorized to visit, for the purposes of inspection, any part of the Military Establishment in the Western Hemisphere, the expenses incurred in pursuance thereof, not to exceed \$—, to be paid from the contingent fund of the Senate.

Mr. President, in connection with the resolution I am now reporting, I wish at this time to inform the Members of the Senate that several months ago the Committee on Military Affairs deemed it advisable to appoint a subcommittee to investigate military establishments in the Alaskan Territory and the Aleutian Islands, extending westward toward Japan. We were very much interested in the organization of this subcommittee as we all realized that the Alaskan area and the area of the Aleutian Islands were of vast importance to the defense of the United States, particularly in view of the fact that, unfortunately, the Japanese, our enemies of the Orient, had succeeded in digging into several of the islands at the westernmost end of the Aleutian group.

I recognize the grave importance of that situation, Mr. President, for in 1938 I was in Alaska, all over Alaska, as far north in that vast Territory as Point Barrow, southward and westward out through most of the Aleutian Islands. At that time, as we all know, very few fortifications were to be found in that region, and many people, certainly those who visited Alaska, recognized that our fortifications were not adequate.

When these matters were brought to the attention of the Committee on Military Affairs, the committee was in perfect agreement that the subcommittee I have mentioned be appointed, and it was appointed, at this critical time, to make an investigation in the territory I have mentioned. Our colleague the junior Senator from Kentucky [Mr. CHANDLER] was named chairman of the subcommittee, and as it was constituted there were two other Senators—the able Senator from Oregon [Mr. HOLMAN] and the able Senator from Washington [Mr. WALLGREN].

The subcommittee went to Alaska, at Government expense, and spent several weeks visiting all parts of Alaska. They went as far northward as Nome, came down through the Bering Sea, and visited

Juneau, the capital, Anchorage, Sitka, and Dutch Harbor, and they made extensive investigations in that particular neighborhood.

The subcommittee returned and filed a report, which is particularly important and will be found most interesting. The report was presented to the War Department, in whose possession it is at this time. A copy of the report is now in the hands of Colonel Watt, the representative of the War Department assigned to the Senate Committee on Military Affairs, and is open to any Senator who desires to examine it.

The members of the Committee on Military Affairs were so thoroughly impressed, and grateful to the Senator from Kentucky [Mr. CHANDLER] and the members of his subcommittee for the fine investigatory work they did, that a few days ago the full committee voted to extend the Chandler subcommittee, not for a definite period, but for such time as may be necessary to give them an opportunity to visit American outposts in the Western Hemisphere and make investigations and recommendations, if they see fit, in any instance, as the able Senators made after their Alaskan tour.

It is, of course, a hardship to call upon the able Senator from Kentucky and the members of his subcommittee, the Senator from Washington and the Senator from Oregon to carry on at this time, but we all recognize that in this war we have the most desperate kinds of enemies, and we believe that the investigation conducted by these Senators of the defenses of the United States, as well as the investigation recently made by the President of the United States, will be of benefit to our war program. So at this time, I report an original resolution from the Committee on Military Affairs.

We wish to thank the Senator from Kentucky and the members of his subcommittee for the very fine work they did, and we believe the American people are indebted to them for the action they brought about.

In conclusion, I may say that some of the best news we have had has come as a result of the bombardments and attacks made by our American flyers, and we all hope and pray that it will not be long before we have blasted the Japanese out of American territory.

The VICE PRESIDENT. Without objection, the resolution (S. Res. 298) reported by the Senator from North Carolina will be received and, under the rule, referred to the Committee to Audit and Control the Contingent Expenses of the Senate.

BILLS INTRODUCED

Bills were introduced, read the first time and, by unanimous consent, the second time, and referred as follows:

By Mr. WILEY:

S. 2825. A bill to accord privileges of free importation of articles consigned or addressed to an individual inside the United States as a gift by a member of its armed forces who is on duty outside of the United States; to the Committee on Finance.

By Mr. WALSH:

S. 2826. A bill for the relief of Capt. Richard Rothwell, United States Marine Corps; to the Committee on Naval Affairs.

By Mr. WALESH (for himself and Mr. CLARK of Missouri):

S. 2827. A bill to amend title 1 of Public Law No. 2, Seventy-third Congress, March 20, 1933, and the veterans regulations to provide for rehabilitation of disabled veterans, and for other purposes; to the Committee on Finance.

By Mr. JOHNSON of Colorado:

S. 2828. A bill for the relief of the Denver Livestock Exchange; to the Committee on Claims.

By Mr. WALLGREN:

S. 2829. A bill to eliminate certain lands from the Wapato Indian irrigation project, Yakima Reservation, Wash., cancel and adjust certain charges, and for other purposes; and

S. 2830. A bill to provide relief to the owners of former Indian-owned land within the Oroville-Tonasket irrigation district, Washington, and for other purposes; to the Committee on Indian Affairs.

AMENDMENTS TO THE REVENUE ACT OF 1942

Mr. LA FOLLETTE and Mr. THOMAS of Oklahoma each submitted several amendments, and Mr. DOWNEY, Mr. HATCH, Mr. McNARY, and Mr. TYDINGS each submitted an amendment, intended to be proposed by them, respectively, to the bill (H. R. 7378) to provide revenue, and for other purposes, which were severally ordered to lie on the table and to be printed.

Mr. McCARRAN submitted an amendment intended to be proposed by him to the bill (H. R. 7378) to provide revenue, and for other purposes, which was ordered to lie on the table, to be printed, and to be printed in the RECORD, as follows:

On page 34, line 9, to strike out the period, insert a colon and the following: "Provided further, That this subsection shall not apply to issues of bonds, debentures, securities or other obligations by a State, or any political subdivision thereof, where such obligations are held by the State, or any duly constituted agency thereof operating solely within such State in the performance of its official duties, as security or investment."

AGRICULTURAL LABOR SHORTAGES IN THE WESTERN STATES

Mr. DOWNEY submitted the following resolution (S. Res. 299), which was referred to the Committee on Military Affairs:

Resolved, That a special committee of three Senators, to be appointed by the President of the Senate, is authorized and directed to make a full and complete study and investigation with respect to (1) the existing shortage of Agricultural labor in the Pacific Coast and Rocky Mountain States and its effect upon the national health and security as related to the efficient and successful prosecution of the war effort, and (2) methods of relieving such shortage, including the obtaining and utilization of farm labor from Mexico and other Latin American countries. The committee shall report to the Senate, as soon as practicable, the results of its study and investigation together with its recommendations, if any, for legislation.

For the purpose of this resolution, the committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places during the sessions, recesses, and adjourned periods of the Senate in the Seventy-seventh

and Seventy-eighth Congresses, to employ such experts, and such clerical, stenographic, and other assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such correspondence, books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures as it deems advisable. The cost of stenographic services to report such hearings shall not be in excess of 25 cents per hundred words. The expenses of the committee, which shall not exceed \$3,000, shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee.

INCREASED GASOLINE RATIONS FOR CERTAIN PERSONS

Mr. MAYBANK submitted the following resolution (S. Res. 300), which was referred to the Special Committee to Investigate the National Defense Program:

Resolved, That the special committee established pursuant to Senate Resolution 71, agreed to March 1, 1941, is authorized, in connection with its investigation under such resolution, to obtain such information with respect to the gasoline rationing program as it deems necessary with a view to ascertaining whether increased allotments can be made to persons who are not engaged in war activities but who are dependent for a livelihood upon the use of their automobiles, without endangering the war effort or interfering with the transportation of persons engaged in war activities.

CRITICISM OF THE PRESIDENT—EDITORIAL FROM PM

Mr. TRUMAN. Mr. President, I ask unanimous consent to have printed in the RECORD as a part of my remarks an editorial appearing in PM for today, on page 13. It expresses to some extent the feeling of a great many of us who have been and always intend to continue to be friends and supporters of the President.

There being no objection, the editorial was ordered to be printed in the RECORD, as follows:

[From PM of October 6, 1942]

ON F. D. R. AND CRITICISM

I wanted to write this editorial last week. But I didn't, because criticism of the President is too serious a matter in times like these to be indulged in lightly.

Never before have I left a White House press conference feeling quite so depressed as on October 1. I didn't write an editorial then because I didn't want to go off half cocked. I wanted to sleep on it and think the thing over.

But after days of reflection I still feel the editorial should be written, because at that press conference the President disclosed a frame of mind that explains why so many things are going wrong in Washington without being corrected.

The President found fault with only three things in Washington. They were Congressmen who were investigating things they didn't understand; newspapermen writing things they didn't understand; and minor administration officials talking about things they didn't understand.

In other words, the clear implication was that all criticism of the administration and the way it was conducting the war was unwarranted and undeserved. That it came only from people who didn't understand, who didn't know the whole story, or who were hostile.

The President didn't name any names. But it sounded like he was aiming at such com-

mittees in Congress as the Truman and Gillette committees of the Senate, which have done really constructive jobs in disclosing how dollar-a-year men were sabotaging F. D. R.'s own program.

At first I thought the President was talking about the Patterson-McCormick papers and the David Lawrences, Mark Sullivan, and Feglers in his criticism of the press. But if it is the Truman and Gillette committees to which he objects, it also may be PM and other sympathetic papers which have tried to show the President who was failing him.

The President's only criticism of his administrative subordinates was that they were talking too much. This sounded like Donald Nelson, who twice has fired men who dared to disclose rotten conditions in the War Production Board, instead of firing the men responsible for the rotten conditions.

Ernest Lindley, one of the columnists most friendly to the President, also was disturbed by the President's attitude. But he tended to dismiss it as an "off day" which all men, even Presidents, sometimes have. Looking back on recent history, I'm afraid it's much more serious than that. I hope not.

The President's attitude may explain why he hasn't responded when his friends in Congress, the press, and in his own administration have pointed out tragic administrative mistakes by his subordinates.

The Truman committee, for instance, over and over again has pointed out conditions which were interfering with America's war effort. This committee is composed chiefly of men who have been friendly to the President, on both domestic and war issues. It is not out to hurt the President, but to help him.

On May 25 the Truman committee submitted a detailed report on the rubber situation, clearing up much of the confusion. It found America facing a rubber famine which required over-all gasoline rationing and many other drastic conservation steps.

This was a perfect opportunity for the President to follow through with Nation-wide gasoline rationing, which all authorities agreed was necessary. But, instead, the President snubbed the committee and confused the public with a press-conference statement the same day indicating that the rubber situation was not serious; that synthetic tires probably would be available in time to keep America's cars rolling.

Almost 4 months later the Baruch committee came up with the same recommendations the Truman committee had offered. The President hailed this as a constructive job and immediately adopted the recommendations. If the President had been willing to listen to friendly critics, he could have saved millions of pounds of irreplaceable rubber.

This is a typical example of what has been happening here for many months. Over and over again the President's friends have tried to tell him what was going wrong and who was responsible. The President almost never has responded. The same people are making the same kind of mistakes today.

Perhaps the President is so busy with other things, so unfamiliar with the facts in these controversies, that he is unable to distinguish between carping criticism and friendly, constructive criticism, and thus tends to discard all of it.

But whatever the cause, it is extremely important for the President's own good, and for the good of the country, for him to realize that much of the criticism is based on hard facts and that it is offered by those who consider themselves his best friends. It is offered by people who have faith in Franklin D. Roosevelt, the man who has done so much to make a better America.

NATHAN ROBERTSON.

COMMUNITY MOBILIZATION FOR HUMAN NEEDS—ADDRESS BY THE PRESIDENT

[Mr. BARKLEY asked and obtained leave to have printed in the Record a radio address delivered by the President on October 5, 1942, in connection with the 1942 Community Mobilization for Human Needs, which appears in the Appendix.]

PROSPECTIVE CROP SHORTAGES—LETTER FROM HARRY L. HOLMES

[Mr. HOLMAN asked and obtained leave to have printed in the Record a letter addressed to him by Harry L. Holmes, of Medford, Oreg., relative to prospective crop shortages, which appears in the Appendix.]

BAD NEWS FROM INDIA—EDITORIAL FROM NEW YORK TIMES

[Mr. REYNOLDS asked and obtained leave to have printed in the Record an editorial entitled "Bad News From India," published in the New York Times of October 3, 1942, which appears in the Appendix.]

PREPARATION FOR THE FUTURE PEACE

[Mr. McNARY asked and obtained leave to have printed in the Record two articles dealing with preparation for the future peace, published in the Christian Science Monitor of September 14, 1942, and September 24, 1942, which appear in the Appendix.]

STATEMENT ON INDIA

[Mr. THOMAS of Oklahoma asked and obtained leave to have printed in the Record a statement on India, signed by numerous American citizens, which appears in the Appendix.]

SHORT TEMPER AND QUICK ANSWERS—EDITORIAL FROM CLOVIS (N. MEX.) NEWS-JOURNAL

[Mr. HATCH asked and obtained leave to have printed in the Record an editorial entitled "Short Tempers and Quick Answers," published in the Clovis (N. Mex.) News-Journal of September 30, 1942, which appears in the Appendix.]

TO OUR NAVY EVERYWHERE

[Mr. LANGER asked and obtained leave to have printed in the Record a poem, entitled "To Our Navy Everywhere," written by D. W. B. Kurtz, Jr., and published in the McLean County Independent, of Garrison, N. Dak., which appears in the Appendix.]

MESSAGE FROM THE HOUSE

A message from the House of Representatives, by Mr. Chaffee, one of its reading clerks, announced that the House had passed without amendment the following bills of the Senate:

S. 2248. An act to amend the law relating to the care and custody of insane residents of Alaska, and for other purposes;

S. 2570. An act to provide for the sale by the Superintendent of Documents of copies of certain historical and naval documents printed by the Government Printing Office;

S. 2627. An act to amend the act approved August 27, 1940 (54 Stat. 864), entitled "An act increasing the number of naval aviators in the line of the Regular Navy and Marine Corps, and for other purposes";

S. 2676. An act to provide for medical care and funeral expenses for certain members of the Naval Reserve Officers' Training Corps;

S. 2677. An act to authorize an exchange of land at Mechanicsburg, Pa., between Edgar Eberly and the United States;

S. 2678. An act to amend the act approved March 2, 1933, by suspending the provisions relative to a Navy ration in kind, and for other purposes;

S. 2682. An act to authorize the Secretary of War to exchange certain lands of the United States located within the Fort De

Russy Military Reservation, Oahu, T. H., for certain land at Barbers Point, Oahu, owned by the Territory of Hawaii;

S. 2685. An act to provide that promotions to higher grades of officers of the Army of the United States, or any components thereof, shall be deemed to have been accepted upon the dates of the orders announcing such promotions, and for other purposes; and

S. 2731. An act to suspend until June 30, 1945, the running of the statute of limitations applicable to violations of the anti-trust laws.

The message also announced that the House had passed the following bills of the Senate, each with amendments, in which it requested the concurrence of the Senate:

S. 2275. An act to amend section 10 of Public, No. 360, Seventy-seventh Congress, to grant national service life insurance in the cases of certain Army flying cadets and aviation students who died as the result of aviation accident in line of duty between October 8, 1940, and June 3, 1941; and

S. 2679. An act to authorize the transportation of dependents and household effects of personnel of the Navy, Marine Corps, Coast Guard, and Coast and Geodetic Survey, incident to secret or confidential orders, and for other purposes.

The message further announced that the House had passed the following bills of the Senate, each with an amendment, in which it requested the concurrence of the Senate:

S. 2655. An act to amend the Judicial Code to authorize the Chief Justice of the United States to assign circuit judges to temporary duty in circuits other than their own; and

S. 2751. An act to amend the act entitled "An act to establish a Women's Army Auxiliary Corps for service with the Army of the United States," approved May 14, 1942, to create the grade of field director in such corps, to provide for enrolled grades in such corps comparable to the enlisted grades in the Regular Army, to provide pay and allowances for all members of such corps at the same rates as those payable to members of the Regular Army in corresponding grades, and for other purposes.

The message also announced that the House had passed the following bills, in which it requested the concurrence of the Senate:

H. R. 6013. An act to authorize the Secretary of War to transfer certain land to the Territory of Hawaii;

H. R. 7059. An act to amend section 385 of the Agricultural Adjustment Act of 1938, as amended, so as to facilitate farmers in the service of the United States receiving the benefits of the farm program;

H. R. 7151. An act to amend the First War Powers Act, 1941, by extending the authority to censor communications to include communications between the continental United States and any Territory or possession of the United States, or between any Territory or possession, and any other Territory or possession;

H. R. 7431. An act to permit the prepayment of the purchase price of certain housing sold to individuals by the Farm Security Administration, and for other purposes;

H. R. 7455. An act to amend the Coast Guard Auxiliary and Reserve Act of 1941, as amended, so as to enable Filipinos to qualify for service thereunder;

H. R. 7576. An act to provide for the advancement of Rear Admiral Emory S. Land, Construction Corps, United States Navy, retired, to the rank of vice admiral; and

H. R. 7577. An act to amend the act approved July 24, 1941 (34 U. S. C., Supp. I,

350f), so as to adjust the pay status of enlisted personnel appointed to commissioned rank for temporary service, and for other purposes.

ENROLLED BILL SIGNED

The message further announced that the Speaker had affixed his signature to the enrolled bill (S. 2584) to permit appointment of White House Police, in accordance with the civil-service laws, from sources outside the Metropolitan and United States Park Police forces, and it was signed by the Vice President.

HOUSE BILLS REFERRED

The following bills were severally read twice by their titles and referred as indicated:

H. R. 6013. An act to authorize the Secretary of War to transfer certain land to the Territory of Hawaii; to the Committee on Military Affairs.

H. R. 7151. An act to amend the First War Powers Act, 1941, by extending the authority to censor communications to include communications between the continental United States and any Territory or possession of the United States, or between any Territory or possession, and any other Territory or possession; to the Committee on the Judiciary.

H. R. 7455. An act to amend the Coast Guard Auxiliary and Reserve Act of 1941, as amended, so as to enable Filipinos to qualify for service thereunder; to the Committee on Commerce.

H. R. 7059. An act to amend section 385 of the Agricultural Adjustment Act of 1938, as amended, so as to facilitate farmers in the service of the United States receiving the benefits of the farm program; and

H. R. 7431. An act to permit the prepayment of the purchase price of certain housing sold to individuals by the Farm Security Administration, and for other purposes; to the Committee on Agriculture and Forestry.

H. R. 7576. An act to provide for the advancement of Rear Admiral Emory S. Land, Construction Corps, United States Navy, retired, to the rank of vice admiral; and

H. R. 7577. An act to amend the act approved July 24, 1941 (34 U. S. C., Supp. I, 350f), so as to adjust the pay status of enlisted personnel appointed to commissioned rank for temporary service, and for other purposes; to the Committee on Naval Affairs.

REVENUE ACT OF 1942

The VICE PRESIDENT. The Chair lays before the Senate the unfinished business, House bill 7378.

The Senate proceeded to consider the bill (H. R. 7378) to provide revenue, and for other purposes, which had been reported from the Committee on Finance with amendments.

Mr. BARKLEY. I suggest the absence of a quorum.

The VICE PRESIDENT. The clerk will call the roll.

The Chief Clerk called the roll, and the following Senators answered to their names:

Alken	Capper	Guffey
Andrews	Caraway	Gurney
Bailey	Chandler	Hatch
Ball	Chavez	Hayden
Bankhead	Clark, Idaho	Herring
Barbour	Clark, Mo.	Hill
Barkley	Connally	Holman
Bilbo	Danaher	Johnson, Calif.
Bone	Davis	Johnson, Colo.
Brewster	Downey	Kilgore
Brooks	Doxey	La Follette
Brown	Ellender	Langer
Bulow	George	Lee
Bunker	Gerry	Lucas
Butler	Gillette	McCarran
Byrd	Green	McFarland

McKellar	Radcliffe	Truman
McNary	Reed	Tunnell
Maloney	Reynolds	Tydings
Maybank	Rosier	Vandenberg
Millikin	Schwartz	Van Nuys
Murdoch	Shipstead	Wagner
Murray	Smathers	Wallgren
Norris	Spencer	Walsh
Nye	Stewart	Wheeler
O'Daniel	Taft	White
O'Mahoney	Thomas, Idaho	Wiley
Overton	Thomas, Okla.	Willis
Pepper	Thomas, Utah	

Mr. HILL. I announce that the Senator from Virginia [Mr. GLASS] and the Senator from Delaware [Mr. HUGHES] are absent from the Senate because of illness.

The Senator from New York [Mr. MEAD], the Senator from Georgia [Mr. RUSSELL], and the Senator from South Carolina [Mr. SMITH] are necessarily absent.

Mr. McNARY. The following Senators are necessarily absent:

The Senator from Vermont [Mr. AUSTIN], the Senator from Ohio [Mr. BURTON], the Senator from Massachusetts [Mr. LODGE], and the Senator from New Hampshire [Mr. BRIDGES].

The VICE PRESIDENT. Eighty-six Senators have answered to their names. A quorum is present.

Mr. GEORGE. Mr. President, the Senate has before it the 1942 revenue bill. The report is on the desk of each Senator and in the back of the report is an index, which gives not only the numbers of the sections dealing with the various contents of the bill but the pages where they are to be found. I am sure each Senator will find this helpful in identifying any particular provision in the bill.

Mr. President, this tax bill represents the largest tax bill in our history. Public hearings before the Ways and Means Committee of the House began on March 3, and the bill came out of the House on July 20. The bill was referred to the Senate Committee on Finance on July 21, and hearings were begun before our committee on July 23 and concluded on August 14.

The hearings before the Ways and Means Committee embraced 3,596 pages, and the hearings before our committee are published in two volumes covering 2,362 pages. Senators can see the tremendous volume of testimony presented in connection with the bill.

The magnitude of the problem is shown in the bill itself, which embraces 575 pages. The length of time consumed in the preparation of this bill was due in large measure to a sincere effort to prevent the drastic increases from causing severe inequities and unduly interfering with our economy. The wartime rates which we are proposing make it imperative to eliminate, so far as possible, existing inequities. I know we have not succeeded in eliminating all inequities and hardships, but we have been successful in eliminating them in many instances.

The total Federal tax bill of the American people, including the additional taxes levied under this bill, will, according to the joint committee staff and the Finance Committee staff, exceed \$26,000,000,000. If we add to this the \$10,200,000,000 in State and local taxes, the

total tax bill will aggregate \$36,537,000,000. It is estimated that our national income at the end of the year will be approximately \$110,000,000,000. Therefore the total tax bill of the American people amounts to approximately one-third of our national income.

Mr. President, I believe that the national income in World War No. 1 reached the peak of about \$56,000,000,000. The highest tax collected during any year of the World War No. 1 period was a little less than \$5,500,000,000.

In Canada the taxes for the fiscal year 1942-43 will amount to \$1,567,000,000. In Great Britain the total revenue for the fiscal year ending March 31, 1943, is estimated to be \$9,876,400,000. In Great Britain there are no local taxes corresponding to those levied by our States. In Canada the Provinces have given up income taxation for the duration. In the United States 34 States and the District of Columbia levy individual income taxes, with rates ranging from 1 to 15 percent. Thirty-three States levy corporation income taxes with rates ranging from 1 to 8 percent. Therefore in considering the increased burdens which we are imposing under this bill we must give some consideration to the income-tax burden levied in the several States.

Under this bill and existing law we will collect an estimated revenue of \$20,054,000,000 from individual and corporate income and excess-profits taxes. Of this amount \$10,790,300,000 will come from corporations, and \$11,264,300,000 from individuals. Corporations, under this bill, will pay 48.9 percent of the total income taxes, and individuals 51.1 percent. In Great Britain 33 percent of the total revenue from income and profits taxes comes from corporations and 67 percent from individuals. In Canada 50.3 percent comes from individuals and 49.7 percent from corporations.

As a matter of fact, Mr. President, the true concept of an income tax is a tax on individuals, and if it were possible to look through the corporation and impose the tax on the individual we could approach a perfect income-tax system. The primary reason why the corporation should be taxed at all is, first, for the convenience of the Treasury in reaching into the corporation and collecting from the corporation taxes in large amounts. Second, because of the disposition of corporate management to withhold rather than to distribute all earnings; the withholding, to be sure, dictated by sound business reasons, or mere convenience, or for the purpose of avoiding, in some instances, the tax to the individual.

In Great Britain there are no local income taxes corresponding to those levied by our States, as I have already said. I have already called attention to the action taken by the Canadian Provinces during the war period. In framing this tax bill we had to exercise considerable care so as not to impose such a severe rate on corporations as to disrupt the national economy of the country or to jeopardize the war-production program.

When the bill reached us from the House the following taxes were levied upon corporations: An excess-profits tax of 90 percent, a normal tax rate of 24

percent, a surtax rate of 21 percent, or a combined normal and surtax rate of 45 percent.

A preponderance of the testimony of witnesses before our committee opposed such a high rate of corporate tax with respect to the normal earnings of corporations. The Treasury Department, which had advocated before the Ways and Means Committee a combined normal and surtax rate of 55 percent on corporations, made the same suggestions to our committee, with certain alleviating provisions to offset such rates. However, even with such alleviating provisions applied it was found that the effective rate would be 48.4 percent, which was well over the House rate. In deciding that the total normal and surtax rates should not exceed 40 percent, we gave careful study to the effect of such a rate upon our economy, and also considered the wartime rates levied by other countries insofar as such rates can furnish any possible correct guide to our committee.

It has frequently been said that Great Britain levies a normal rate of 50 percent upon corporations. While this is true, dividends from the normal earnings are not subject under the British law to a further normal tax in the hands of the individual shareholder. The British surtax does not apply to incomes of individuals of less than \$8,000, and if the income of the individual shareholder is less than his exemptions, the British allow him a refund of the tax paid by the corporation. Under our system of taxation we allow the individual no credit for the tax paid by the corporation.

If we look at the first bracket of individual tax rates under this bill, we find that the total of normal and surtax rates is 19 percent. In addition, the 5 percent Victory tax raises this total to 24 percent. If we add to this the 40 percent imposed upon corporations, we have a total tax rate of 64 percent on individual dividend income as compared with the British rate of 50 percent with respect to individuals with less than \$8,000 income.

Moreover, in Great Britain no State or local taxes are imposed. In Canada, as in this country, no credit is allowed the individual shareholder for income taxes paid by the corporation. This was one of the main reasons which influenced the Canadian minister against recommending a further increase in the normal rate upon corporations in Canada.

In Canada there is no surtax rate. The Canadian corporate rate is 40 percent, except where the 100-percent excess-profits tax rate applies. Corporations subject to the 100-percent excess-profits tax rate are subject to a normal rate of 30 percent.

Again it should be pointed out that in Canada the Provinces have given up the income-tax field for the duration of the war. The Canadian Minister of Finance in explaining in his budget message why the normal taxes should not be increased stated:

Already the tax on profits that have not increased is heavy when we bear in mind that those profits, when distributed as dividends, are subject to all the personal income taxes in addition to the corporation taxes. This

involves, in effect, a discrimination against income earned in the form of corporate profits as distinct from other types of income, such as interest. Such discrimination may be justified, but I believe we have already gone far enough in that direction.

Secondly—

Said the Minister—

I proposed to increase the rate of taxes on excess profits, but not the flat rate of tax which applies to profits generally.

In fixing the excess-profits rate in the bill at 90 percent with a 10-percent post-war refund, we gave careful consideration to the conclusions of Mr. Donald Nelson, of the War Production Board, and others. Mr. Nelson made the following statement:

I shall not venture to suggest appropriate rates for an excess-profits tax. I am inclined to believe, however, that in order not to endanger efficiency in the production of armaments and essential civilian commodities, the tax should not take more than about 80 percent of additional profits.

If a higher rate is adopted notwithstanding its effects on efficiency, I should suggest that any amount which exceeds the 80-percent level be treated as a post-war credit, preferably in the form of a Government obligation with definite maturities.

Such a procedure would both preserve the necessary incentive and provide assistance in post-war reconversion. Insofar as the latter factor is the controlling consideration, the credit might be made dependent on the taxpayer's showing that corresponding expenditures had been made or were needed to re-establish peacetime operations.

England and Canada both have a 100-percent excess-profits tax with a 20-percent post-war refund payable after the war. Under our bill, we have a 90-percent excess-profits-tax rate, with a post-war refund of 10 percent. In a recent article appearing in the *Business Front of Canada*, of September 26, 1942, the following statement is made:

Because the corporation tax is in effect a flat levy on the income of rich and poor shareholders alike, its burden is felt most by those of limited income. These people, many of them retired or widowed, who had the faith in the industrial future of the Dominion to place part of their savings in dividend-paying stocks, are adversely affected by another factor.

In the same article, further complaint is made of the high rate of the excess-profits tax in Canada in the following language:

Taxpayers in general stand to benefit from a revision of present corporation income-tax legislation. The provision of a reasonable profit incentive would lead to low production costs. While this would be most important in war supplies it would be a factor in keeping down the cost of living, directly and through the amount of subsidy payments necessary to maintain established price ceilings.

The efficiency of our various corporations has been built up over a period of years by the profit motive. Failure to maintain this will cause a deterioration in our economic system which will be fully apparent only after irreparable damage has been done. Due to the disappearance of the patriotic stimulus with the conclusion of hostilities, and the accumulated inefficiencies engendered by our present taxes, Canadian industry will be ill-equipped to contend with the difficulties of changing from wartime to peacetime production.

By allowing a fair cash profit for both management and employee, as suggested above, we will have the benefit of maximum production at low cost during the war, and both industry and labor will be able to face the transition to a peacetime economy with reserves of working capital and purchasing power.

The maintenance of full employment after the war will depend upon a tremendous and continuous investment of new capital. If we are to avoid socialization of industry, the bulk of this capital must be provided by corporations and individual investors. It will be forthcoming, as in the past, only if there is reasonable assurance of profit to compensate for the risks involved. Under present company taxes, however, there is little inducement to explore new fields and develop new markets; and capital would tend to stagnate in bonds rather than in new stock ventures.

When the new Budget was first introduced last June, it provided that if a man's wife were gainfully employed he would lose his tax exemption as a married man. The prompt exodus of wives from factories threatened to seriously reduce war production and caused an immediate cancellation of this clause. It is unfortunate that the damage which results from minimizing the profit motive of corporations is not as readily seen as that in the case of individuals.

Our present 100-percent tax on higher earnings of corporations is plainly a case of

being penny wise and pound foolish. By restoring a reasonable profit incentive we could stimulate the production of war materials, grant more equitable treatment to a large class of investors, and benefit all taxpayers by reducing war costs and placing our economy in a better position to face the difficulties of the post-war period.

I should also like to call attention to an inequity in our law with respect to the excess-profits tax, which is not present in either the Canadian or British excess-profits-tax laws.

In Great Britain, before the excess-profits tax applies, the net income must exceed 111.1 percent of the base-period earnings. In Canada, the net income must exceed 116.6 percent of its base-period earnings before the excess-profits tax applies. Under our law, we allow only 95 percent of the average earnings as a credit before the excess-profits-tax rates apply. Therefore, we are, in effect, subjecting 5 percent of the normal earnings of the corporation to our excess-profits tax. Personally I should like to see this 95-percent credit raised to 100 percent, so that we would not levy an excess-profits tax on the normal earnings of corporations.

I wish to summarize our corporate taxes under this bill, as follows:

	Existing law	House bill	Finance Committee bill
Normal tax:			
(1) Corporations with normal tax net incomes of not more than \$25,000:	Percent	Percent	Percent
First \$5,000.....	15	No change	No change
\$5,000 to \$20,000.....	17	No change	No change
\$20,000 to \$25,000.....	19	No change	No change
(2) Corporations with normal tax incomes of over \$25,000.....	24	No change	No change
Surtax:			
(1) Corporations with surtax net incomes of not more than \$25,000: First \$25,000.....	6	10	10
(2) Corporations with surtax net incomes over \$25,000.....	7	21	16
Excess-profits tax:			
First \$20,000.....	25		
\$20,000 to \$50,000.....	40		
\$50,000 to \$100,000.....	45	10	90
\$100,000 to \$250,000.....	50		
\$250,000 to \$500,000.....	55		
Over \$500,000.....	60		
Excess-profits credit:			
Invested-capital method:			
First \$5,000,000 of invested capital.....	8	8	8
\$5,000,000 to \$10,000,000.....	7	7	7
\$10,000,000 to \$200,000,000.....	7	6	6
Over \$200,000,000.....	7	5	5
Income method: Portion of average earnings in base period.....	95	95	95
Special exemption.....	\$5,000	\$10,000	\$5,000
Maximum effective rate of corporate normal tax, surtax, and excess-profits tax.....	None	None	80
Post-war credit.....	None	None	10
Debt relief.....	None	None	(1)

¹ 40 percent of amounts paid in debt retirement during taxable year but not in excess of post-war credit.

That is a general statement of the corporate rate under existing law, under the House bill, and under the Senate Finance Committee bill.

Under the House bill, a flat rate of 90 percent was imposed upon the adjusted excess-profits net income of corporations, and no post-war credit was provided for. Your committee has provided for a post-war credit of 10 percent of the amount of the excess-profits tax paid. Under this provision in the bill, corporations will pay the full excess-profits tax not absorbed by current debt retirement. The amount representing the post-war credit will be credited to the taxpayer's account, to be satisfied in bonds payable after the war. Such bonds will mature on the last day of that calendar year, beginning after the date of cessation of

hostilities in the present war, which is shown in the following table to be applicable to such bonds for such year:

Calendar year (beginning after cessation of hostilities) on last day of which bonds mature

Bonds purchased with the credit for any taxable year beginning—

Within the calendar year 1942... Second
Within the calendar year 1943... Third
Within the calendar year 1944... Fourth
After Dec. 31, 1944..... Fifth

The cessation of hostilities is, under the Senate Finance Committee bill, to be based upon a proclamation of the President declaring hostilities to have ceased or upon a concurrent resolution of the two Houses of Congress declaring the cessation of hostilities.

The main reasons why a post-war credit is deemed essential are as follows:

First. With a high corporate tax, a post-war credit will give the corporation an immediate incentive to be more efficient in its operation and to keep its operating costs down to a reasonable minimum. One of the dangerous features about an excess-profits tax rate that is too high is that it not only provides no incentive to make profits, but it is an added inducement to create losses. There has been a tendency in the past on the part of some corporations even to scrap a portion of their inventories or otherwise increase their expenses so that their current income would not exceed their average earnings or invested-capital credit.

Second. It will provide more immediate revenue to the Government than would otherwise be secured under excessively high rates. The Government will have the use of the amount of this post-war credit during the period of the war without being required to pay interest thereon.

Third. It will provide the corporation with a post-war reserve to enable it to undertake the task of rehabilitation and readjustment to meet post-war conditions.

Fourth. By having a tendency to hold down costs, it will offset somewhat the effect of an unduly high excess-profits tax upon inflation. Under a too severe excess-profits tax, without a post-war credit, it may be possible for the corporation to justify many expenditures which will be deductible for tax purposes.

Our committee was very much in favor of providing debt relief for corporations. Under the House bill, no debt relief was provided.

The amount taken as a debt credit will reduce the amount of the post-war credit available to the taxpayer at the end of the war. The debt subject to the credit cannot exceed the amount of the indebtedness outstanding as of September 1, 1942. It also cannot exceed 40 percent of the net debt reduction of such debt at the close of the calendar year.

The following example will show how the plan operates: Assume a corporation is filing a return for the calendar year 1942. Its excess-profits tax for the year is \$500,000 and its post-war credit is \$50,000. Its debt situation is as follows:

Debts outstanding as of September 1, 1942, \$100,000.

Debts outstanding as of December 31, 1942, \$20,000.

Net debt reduction since September 1, 1942, \$80,000.

Debt credit, 40 percent of \$80,000, or \$32,000.

The taxpayer in this case may, therefore, secure a credit against its excess-profits tax of \$500,000 in the amount of \$32,000, which will reduce the excess-profits tax to \$468,000. However, its post-war credit in turn will thereby be reduced from \$50,000 to \$18,000, the difference between \$32,000 and \$50,000.

Our committee repealed the capital stock and declared excess-profits tax provisions. It was believed that the taxpayer would have difficulty in forecasting future earnings, especially at this time.

The capital stock tax is computed on the taxpayer's declared value, which is estimated according to what it forecasts its future earnings might be for taxable years ending after the close of its capital stock tax year. The net effect of this repeal, according to Treasury estimates, will amount to a loss in revenue of 83.7 millions.

With respect to the taxation of mutual insurance companies other than life or marine, there was considerable objection to the House method. Under the House bill, mutual insurance companies other than life were to be taxed on the basis of their underwriting and investment income. Dividends to policyholders were deductible to the extent they were paid out of premiums received or surplus apportioned to policyholders. To the extent they were paid out of investment income, they were disallowed. Your committee carefully considered the House plan and various modifications in attempting to define and tax underwriting income in an equitable manner. It was finally decided to impose a tax upon mutual insurance companies other than life or marine upon whichever of the following two bases produced the greater tax:

First. A new investment income tax base to which the ordinary corporate rates would be applicable.

Second. A base consisting of the gross income from interest, dividends, rents, and net premiums less dividends to policyholders and wholly tax-exempt interest. To this base a rate of 1 percent would apply. Whichever tax was greater would be paid by the insurance companies.

The tax does not apply to corporations if the gross amount received during the taxable year from interest, dividends, rents, and premiums, including deposits and assessments, does not exceed \$75,000. Therefore practically all the farmers' and other small and local mutual companies will not be required to file income-tax returns or pay income taxes. It is estimated that over 80 percent of all mutual companies will be exempt from filing returns under this provision.

Mutual marine insurance companies are taxable like stock insurance companies, with a deduction for dividends paid to policyholders as such. This is substantially the basis under which they are taxed under existing law.

Life insurance companies are taxable in the same manner as under the House bill, with one major exception. Under the House bill, capital gain or loss treatment was extended to life insurance companies with respect to assets acquired after the enactment of the revenue bill of 1942. Since the revenue from this source would be very small and the House provision would require life insurance companies to separate their assets according to date of purchase, your committee believed it advisable to return to the existing law and to ignore capital gains and losses in the treatment of life insurance companies.

NET LOSS CARRY-BACK

Our committee has allowed a carry-back to net operating losses for any taxable year beginning on and after Jan-

uary 1, 1942. The net operating loss may be carried back to the 2 preceding taxable years, but not to any taxable year beginning before January 1, 1941. The net loss which is not used as a carry-back may be carried forward for any taxable year to the 2 succeeding taxable years.

An example will make the application of this section clear:

A taxpayer has \$600 net income for 1941 and \$900 net income for 1942. In 1943 he has a net operating loss of \$1,000. This net operating loss may be carried back to 1941, and will, therefore, reduce the income for that year to zero. The balance of this net loss—namely, \$400—may be applied against the net income for 1942, and thereby reduce that net income for that year to \$500.

We had a similar provision in the Revenue Act of 1918 when we allowed net operating losses for 1920 to be carried back and applied against the net income for the year 1918.

A somewhat similar relief is allowed under the bill in case of the unused credit allowed for excess-profits taxes.

WESTERN HEMISPHERE CORPORATIONS

Our American corporations trading in foreign countries within the Western Hemisphere are placed at a considerable disadvantage with corporations organized under the laws of other countries. In the case of corporations organized under the laws of other countries, there is no tax levied by the home country. In the case of our corporations, we subject them to the full American tax, with credit for the taxes paid to the foreign country.

To alleviate this situation somewhat, and to encourage our American corporations in doing business in the Western Hemisphere, we have provided that such corporations shall be relieved from the surtax if 95 percent of their income is from sources outside of the United States and if 90 percent of their income is from the active conduct of a trade or business.

Our committee gave considerable attention to the general relief provisions in connection with the excess-profits tax. With a rate as high as 90 percent, it is necessary that care be taken to prevent unforeseen hardships. The House provision on general relief was very broad and goes a long way toward accomplishing this objective. However, your committee made certain changes which it is believed will considerably improve the situation. In the first place, the general relief provision is made retroactive so as to apply to the taxable years 1940 and 1941. The committee has also made it clear that once the taxpayer's credit has been determined under the relief provision such credit may be used for all future years.

Under the House bill the relief provisions were not applicable unless the excess-profits tax exceeded 6 percent of the taxpayer's normal tax net income and unless the relief would diminish the excess-profits tax otherwise payable by more than 5 percent. Your committee did not believe it desirable to deny relief to those taxpayers merely because they did not come within these arbitrary limitations. Under the House bill there was

a provision that in determining the constructive average base period net income of the taxpayer no regard should be had to events or conditions affecting the taxpayer, the industry of which it is a member or taxpayer generally, occurring or existing after December 31, 1939.

Your committee has amended this provision so as to make it clear that it does not preclude an examination of a taxpayer coming into existence after December 31, 1939, or of a taxpayer the changes in the character of the business of which properly matured after such date. In granting relief under this section, the House bill permitted relief where there was a change in capacity for production or operation taking place in any taxable year ending after December 31, 1939, as a result of commitments made prior to January 1, 1940, binding the taxpayer to make the change. Your committee felt it was the purpose of the provision to afford relief to taxpayers who were committed to a course of action prior to January 1, 1940, and amended the provision accordingly.

Special relief is granted to mines under the Finance Committee bill in order to encourage the production of minerals in connection with the war effort. A special net loss carry-over for the years 1938 and 1939 is provided. The bill also provides a special deduction in computing the excess-profits net income where the production of the mines in excess of normal exceeds 5 percent of the estimated reserve.

Corporations engaged in mining of strategic metals are exempt from the excess-profits tax with respect to that part of their income coming from this source. Special relief is also provided for coal mines.

CAPITAL GAINS AND LOSSES

Your committee has made several changes in the House provision dealing with capital gains and losses.

The holding period for determining whether the taxpayer has realized a short- or long-term capital gain or loss has been reduced to 6 months. Therefore, gains or losses from assets held over 6 months are treated as long-term gains or losses, and gains or losses from assets held for 6 months or less are treated as short-term gains or losses. The maximum rate on long-term capital gains of 25 percent, as provided in the House bill, is retained, the rate under the present law being 15 percent. Capital losses cannot be applied against ordinary income, but a 5-year carry-over is allowed in which such losses can be applied against capital gains realized over such 5-year period. An exception is made in the case of the first \$1,000 of excess capital loss, which can be applied against ordinary income in the case of individuals.

Under the House bill losses from the sale of real property and buildings were treated as capital losses, even though the property was used in the trade or business. Your committee has changed this rule with respect to buildings and real estate used in the trade or business. If the losses exceed the gains in such cases, such losses will be treated as ordinary

losses. It is believed this change will be of material benefit to businesses which, due to depressed conditions, have been compelled to dispose of their plant and equipment.

WAR LOSSES

The committee gave considerable attention to the problem of property of taxpayers located within an enemy country or within an enemy controlled area. Such property is, for all practicable purposes, lost to the taxpayer and should be treated as a casualty loss. If the property was within an enemy country or an area controlled by the enemy at the outbreak of the war the loss may be considered to have occurred on the date of declaration of war against such enemy country by the United States. Thus property in Germany and Italy will be considered destroyed in 1941, as war was declared on December 7.

If the property is in an area coming under the control of an enemy country after the declaration of war against such country, it shall be deemed to have been destroyed or seized on any date which falls between the latest date, as established to the satisfaction of the Commissioner, on which such property may be considered as having already been destroyed or seized and the earliest date on which such property may be considered as having already been destroyed or seized. For example, suppose the military evacuation of an area is begun during the middle of December, and that fighting occurs in that area from that time until the middle of January, when the enemy finally establishes complete control. Such a taxpayer may treat his loss as occurring in either December or January.

AMORTIZATION OF EMERGENCY FACILITIES

Your committee accepted the provisions of the House bill dealing with the amortization of emergency facilities.

In addition, your committee inserted a provision which permits the taxpayer in case the proclamation of the President terminating the emergency is made before the completion of the facility to elect to use an amortization period beginning with the month in which the construction, reconstruction, erection, or installation of the emergency facility was begun and ending as of the end of the month within which such proclamation was issued. This will permit taxpayers who do not have any income in the period subsequent to the President's proclamation to revise their returns embraced in the period beginning with the construction of the facility and take the amortization in their returns for such period.

The two important changes made by the House in this provision of the tax bill should be noted. They were to make the provision applicable to individuals or partnerships, and also to move the date of the beginning of the construction of the facility back to January 1, 1940, instead of June 10, 1940. It will be recalled that the Senate originally provided that the date of the commencement of the construction of the facility should be January 1, 1940, but it was compromised in the conference on the 1940 bill.

RELIEF FOR INSTALLMENT-BASIS TAXPAYERS

Your committee has changed the provisions of the House bill granting relief for installment taxpayers if the average volume of credit extended to purchasers on the installment plan during the years 1938, 1939, 1940, and 1941 exceeds 125 percent of the volume of such credit extended in 1942 or subsequent years. The taxpayer is also given an opportunity to establish eligibility for relief in terms of outstanding accounts receivable as well as in those of the volume of credit extended to purchasers on the installment plan. In such cases the taxpayer is permitted to file amended returns on the accrual basis. This is limited to the excess-profits tax.

INCOME FROM LONG-TERM CONTRACTS

In the case of income from long-term contracts, your committee has amended the law to make it clear that where such income is thrown back into the base period years, it will have the effect of increasing the average earnings credit.

That was supposed to be the law, and it was so stated in the Finance Committee report on the passage of the Excess Profits Tax Act.

Relief has also been granted under the bill for taxpayers employing the last-in first-out method of inventory valuation.

PENSION TRUSTS

The Committee on Finance, upon the appointment of a subcommittee, made certain changes in the provisions of the House text dealing with pension trusts which, it is believed, will improve and protect the legitimate pension trusts.

FISCAL YEARS

As the bill passed the House it provided a special rule for corporations and individuals with fiscal years ending in 1942. Under the bill such a taxpayer was compelled to compute its income and tax both under the 1941 and 1942 laws, and pay as its tax the sum of the following:

First. That proportion of its tax for the fiscal year, computed under the 1941 law, which the number of months in 1941 bears to the full year, plus

Second. That proportion of its tax for the fiscal year, computed under the 1942 law, which the number of months in 1942 bears to the full year.

Considerable complaint was made that such a system required a computation of income under two different laws, and also penalized those taxpayers whose fiscal years had closed, when returns were filed, and when dividends had already been declared. It was also objected to on the ground that it was retroactive, as the Ways and Means Committee did not take final action on this matter until the latter part of June.

The Senate committee attempted to overcome this objection by applying the 1942 rates to that portion of any fiscal year ending after June 30, 1942. The computation of net income will still be made under the 1941 law, except that the adjusted excess-profits tax net income will be allowed in computing normal and surtax net income instead of the excess-profits tax.

INDIVIDUAL INCOME TAX

The bill further broadens the individual income-tax base by reducing the personal exemption for a married person, or head of a family, from \$1,500 to \$1,200, and in the case of a single person from \$750 to \$500. In this respect the pending bill is the same as that passed by the House. It is estimated that the reduction in personal exemptions will add approximately 7,000,000 new taxpayers.

The committee reduced the \$400 credit allowed under existing law for each dependent to \$300. The House made no change in existing law. Prior to the last World War no credit was allowed for dependents, and during the period 1917-20 a credit of \$200 was allowed.

It should be noted, as all of us will realize, that the income-tax rates were much lower prior to World War No. 1, and even during World War No. 1, and during the period 1917 to 1920, and the credits allowed both to a single individual and to a married person were much greater than they are under existing law.

Since 1920 the credit has remained at \$400, although during this period the personal exemptions have been drastically reduced. It is estimated that the reduction of credit for dependents from \$400 to \$300 will add approximately 600,000 new taxpayers. My recollection is that the Treasury estimated that it would result in a revenue increase of some \$232,000,000.

NORMAL AND SURTAX RATES

The bill increases the existing 4-percent normal-tax rate to 6 percent, the same as provided by the House. The bill also makes no change in the surtax rates adopted by the House, which provided for increased surtax rates over those levied under existing law. The proposed rates range from 13 to 82 percent, the maximum rate of 82 percent being applicable to surtax net income in excess of \$200,000, whereas the existing rates range from 6 to 77 percent, the 77-percent maximum rate applying only to surtax net incomes in excess of \$5,000,000.

It will thus be seen that when the taxpayer reaches the bracket in which the 82-percent surtax rate is applicable, his total tax rate will be 6 percent plus the 82 percent, or 88 percent, and that that total rate is applied to all individuals whose incomes exceed \$200,000.

The effect of these increased rates is shown by the burden tables contained in the committee report, beginning on page 17, which show the amount of tax under the existing law, the bill as it passed the House, and the bill as reported by the Finance Committee.

VICTORY TAX

The bill levies a victory tax of 5 percent on all income in excess of \$624 received during the year by individuals from salaries, wages, and other compensation for personal services, dividends, interest, annuities, and net profit from business or profession.

This victory tax is estimated to yield a gross revenue of \$3,600,000,000, of which amount \$1,100,000,000 will be returned to the taxpayer as a post-war

credit, or may be taken currently up to the extent of post-war credit, as a credit against the victory tax for debts incurred prior to September 1, 1942, payment of life insurance in force on or before September 1, 1942, or for the purchase of war bonds.

It is estimated that this tax will add an additional eighteen and one-half million taxpayers, who otherwise would pay no tax directly to the Federal Government. Without the victory tax, it is estimated, there will be twenty-seven and one-half million taxpayers. Thus, under the regular income tax and the victory tax there will be a total of 46,000,000 taxpayers.

In order to raise the large amount of additional revenue required it is necessary to reach down into the lower-income group, and in doing so I have felt it preferable to levy a tax such as the victory tax, rather than a general retail sales tax, which would have been necessary in order to raise this amount of additional revenue. For example, if we should confiscate all net income over \$50,000, we would receive only approximately \$600,000,000 of additional revenue, and under increased estate-tax rates, which, under the present law, in many instances are now higher than those levied in Canada and Great Britain, we would receive no immediate additional revenue.

No individual will be subject to the victory tax unless his income exceeds \$624 a year, or \$12 a week, whereas under a general retail sales tax individuals with incomes under \$624 would be required to pay a tax on the food they consumed, the clothes they wore, and on other necessities of life. For these reasons I proposed the victory-tax provision contained in the pending bill.

The victory tax is a tax based upon ability to pay, whereas a general retail sales tax is a tax on consumption. For example, under the victory tax a person having a gross income of \$100,000 will pay a gross victory tax of \$4,968.80. To pay this amount of tax under a 5-percent general retail sales tax, it would be necessary for one with a gross income of \$100,000 to spend \$99,376 on articles subject to a retail sales tax. The adoption of a sales tax in lieu of the victory tax would mean the shifting of the tax from those best able to pay to those least able to pay.

Some have criticized the victory tax because the exemption of \$624 applies alike to single and married persons with or without dependents. I might say, in passing, that if many more women must go into industry, those who believe in the victory tax may be considered as having made some contribution for the married women to find their places in the war program. Such objection is neither fair nor valid, since a differential is allowed as between taxpayers of different marital status in the amount of post-war credit allowed. For example, in the case of a single person the bill provides a post-war credit of 25 percent of the victory tax, but not to exceed \$500. In the case of a married person the post-war credit allowed is 40 percent of the victory tax,

but not to exceed \$1,000, and 2 percent, but not to exceed \$100, is allowed for each dependent.

The \$624 exemption is provided for simplicity of administration, so that it will not place upon the employer, who is required to withhold this tax at the source from salaries and wages, the tremendous burden and expense that would be required under the 5 percent withholding provision contained in the House text.

The withholding of the victory tax at the source does not apply in the case of domestic servants, agricultural labor, or to those in the armed forces. These exemptions are made for simplicity of administration. Such employees, however, are not exempt from the victory tax, but it will be reported and paid at the time of filing their regular income-tax return, or a victory tax return.

Table 4 of the committee report, on page 12, shows the amount of the victory tax, post-war credit, and net victory tax on specified gross income. For example, a single person with a salary of \$100 per month will pay \$28.80. His post-war credit will be \$7.20, leaving a net victory tax of \$20.60, or a gross tax of 2.4 percent, and a net tax of 1.8 percent, as shown in table 5 on page 13.

This tax will apply to all incomes of the character described, and it will be applicable to the worker whose income is in excess of \$12 per week, as it will be to the salary of a Senator of the United States or the salary of the President of the United States. In my opinion, this tax will be cheerfully borne by the American people, especially those in the lower income group, who already have demonstrated not only their willingness but their desire to contribute more directly to the war effort and to an early victory.

I am aware that there may be leaders in certain labor organizations who have and who will continue to attack the victory tax, but it is a much fairer tax on the poor man, or the man with a moderate income, than any sales tax that the Congress might impose. Moreover, there are but two ways of reaching the vast reservoir of national income which is in the hands of low-income producers, so-called, that is, either through a type of gross-income tax, adjusted as the victory tax is adjusted, or a sales tax. Let those who oppose the victory tax take their choice. They will get one or the other.

Mr. McNARY. Mr. President, I do not want to request the Senator from Georgia to yield if he desires to continue.

Mr. GEORGE. I am nearly through.

Mr. McNARY. I was simply going to ask the Senator whether the victory tax was a conception of the committee, or if it came from the Treasury Department.

Mr. GEORGE. It was presented by the committee. The committee also adopted a provision similar to the one imposed under the Revenue Act of 1938, which will permit the liquidation of personal holding companies, but it is restricted to personal holding companies, and, I may add, to domestic holding companies.

Your committee has provided relief for railroads in receivership or bankruptcy. In the case of reorganizations beginning after December 31, 1939, the basis of the property in the hands of the old company is carried forward to the new company. It should be noted also, Mr. President, that with respect not only to railroad corporations but to all corporations, a provision has been inserted in the pending bill which will permit a corporation to buy up its own securities without accounting for a gain and without the necessity, as in existing law, of declaring and showing that the corporation is in an unsound financial condition. It was very strongly urged upon the committee to give to the railroad companies of the country a deferred maintenance, but in lieu of the deferred maintenance we adopted the 2-year loss carry-back to which reference has already been made in this statement.

The Senate Finance Committee has also applied the Federal income tax to income from future issues of State and local securities, but does not provide for the taxation of outstanding issues. The immediate revenue from the taxation of future issues of such securities will not be great, but as the years pass the income tax on the income derived from these future issues will become greater.

Mr. President, there are many administrative provisions contained in the bill which I shall not take the time to discuss, and with respect to the miscellaneous taxes, the Senate must be referred to the tables on pages 56 and 57 of the committee report.

In closing this very brief statement, Mr. President, of such a long bill, I desire to say that the Ways and Means Committee of the House, especially the able chairman of that committee, deserves great credit for the making of many administrative and technical changes in our revenue laws which will relieve a great many inequities and hardships, and which, as I have already undertaken to point out, become of supreme importance as the tax rates advance.

Mr. President, certain subcommittees were appointed during the consideration of this bill, and the members of those subcommittees on pension trusts, on mines and mining, and on mutual insurance, are, of course, better prepared to discuss the matter with which they dealt, and will be highly pleased to answer any questions the Members of the Senate may wish to propound. Indeed, Mr. President, I feel that every member of the Finance Committee will be very glad to respond to any question asked by any Member of the Senate.

Mr. McNARY. Mr. President, will the Senator yield for a question?

The PRESIDING OFFICER (Mr. BUNKER in the chair). Does the Senator from Georgia yield to the Senator from Oregon?

Mr. GEORGE. I yield.

Mr. McNARY. I commend the Senator for his very excellent and clarifying speech on a bill which it is almost impossible for one to understand, without sufficient time carefully to study it. I think the Senator has rendered a very

great service in clarifying some of the bill's provisions.

I desire to ask the Senator a question on the matter he discussed with respect to corporations. I understood the able Senator to say that corporations are permitted to deduct indebtedness in connection with the payment of taxes.

Mr. GEORGE. Will the Senator state his question again?

Mr. McNARY. I understood the Senator to say in his very able argument that corporations were permitted to make deductions of indebtedness in connection with the payment of taxes.

Mr. GEORGE. A corporation is permitted to deduct payments made on debt, that is in reduction of the net debt of the corporation, as set out in the bill, but not exceeding the post-war credit.

Mr. McNARY. What I want to know is whether that rule applies to individuals.

Mr. GEORGE. It does not apply to individuals, except to this extent: The victory tax, or the gross income tax, the 5 percent tax, does permit a post-war credit, and the post-war credit may be absorbed either by the payment of debts, the payment of life insurance, or may be taken up by a special bond to be issued by the Treasury. To that extent only is there a debt relief to individuals. Of course, under the regular income tax, interest paid on indebtedness is allowed as a deduction in computing income.

Mr. McNARY. Does the Senator think that is comparable treatment as between corporations and individuals?

Mr. GEORGE. I think it is comparable treatment, but the situation is not the same, I may say to the Senator. The Finance Committee at first agreed upon a combined normal and surtax rate of 45 percent for corporations, and 90 percent for excess-profits taxes. At that time it was decided to give to all corporations the post-war credit, that is against the excess profits and the surtax, but not the normal tax. As to individuals, there was no post-war credit provided. Later, during the deliberations of the committee, it was decided to reduce the normal and surtax rates from 45 to 40 percent, and to eliminate any post-war credit against the corporation surtax.

Let me now say that the reason—I previously tried to make it clear—for the post-war credit against excess-profits taxes is this: A tax of 100 percent is levied by both Canada and Great Britain. It is not working well, and complaint is lodged in both countries, although they give a post-war credit against the excess-profits tax of 20 percent, which has the effect of cutting back the excess-profits tax to 80 percent. Nevertheless, since the total of 100 percent is taken, it is found that the practice conduces to loose management, and a disposition to create expense to absorb the excess-profits tax, rather than to general economy in the war effort.

I should like to read to the Senator a statement taken from one of the leading Canadian publications on that point:

The recent budget called for a tax on Canadian companies of 100 percent of their excess profits (that is, profits in excess of the annual average of the 1936-39 period)—

The same base period as we have, but far more liberal—

with a return of 20 percent at the end of the war. This is very similar to the corporation levy in effect in Great Britain where there is widespread agitation for revision. In the Australian Parliament legislation was recently introduced to allow corporations to retain a larger proportion of their earnings than at present permitted.

In both countries there is considerable evidence that the present taxes have curtailed the profit motive to such an extent that there has been a marked decline in efficiency and in the volume of materials produced. The more liberal policy in the United States, as approved by the Senate Finance Committee, calls for a tax of 90 percent of excess profits and a return to the company at the end of the war of more than 10 percent of excess profits.

The article should have said a 10-percent tax credit, which is slightly different. I invite the Senator's attention to that statement because I think it is very, very important.

Mr. McNARY. Mr. President, may I propound another inquiry? Did the Senate committee give any thought to the taxation of tax-exempt securities?

Mr. GEORGE. It did, and recommended the taxation of all future issues, that is, all securities issued after January 1, 1943.

Mr. McNARY. Did the committee believe that it had no authority to tax securities heretofore issued?

Mr. GEORGE. There is a division of opinion in the committee upon that question, but it is obvious that the legal principle, with two important exceptions, which will be brought out in debate, is substantially the same. However, the majority of the committee was against the taxation of outstanding issues. It was contended—and I think with a great deal of plausibility and reason—that the owners of outstanding State and municipal securities purchased them in the faith that they were not subject to Federal income taxes, in reliance upon the decisions of the Supreme Court.

Mr. McNARY. My inquiry was directed particularly to the Federal issue of tax-exempt securities. There are Federal tax-exempt securities, are there not?

Mr. GEORGE. Not at this time. All Federal securities issued after March 1941 are subject to the income tax. There are some outstanding securities, of course, which are exempt from taxation.

Mr. McNARY. What is the total amount of outstanding securities exempt from taxation?

Mr. GEORGE. It is a relatively large sum, and yet not a large sum as compared with our total. My recollection is that the amount of marketable issues is around \$35,000,000,000. Those are the securities which are wholly or partially tax exempt. The total tax exempt are less than \$1,000,000,000. State and local securities outstanding as of June 30, 1941, amounted to \$20,000,000,000.

Mr. McNARY. I appreciate that statement. The figure I have is \$18,000,000,000.

Mr. GEORGE. It is somewhere around \$35,000,000,000, so far as Federal obligations are concerned.

Mr. McNARY. I was curious to know whether the committee, in the great thought it exercised in getting the bill in shape, gave consideration to the taxation of such securities, amounting to \$18,000,000,000.

Mr. GEORGE. The Senator means outstanding Federal bonds?

Mr. McNARY. Yes.

Mr. GEORGE. I do not believe that anyone would contend that we could tax those bonds, because the holders of the bonds have a contract with the Government of the United States, the taxing authority. Certainly I do not believe that anybody would want the Government to break faith with the purchasers of its own securities. This would violate the due-process clause of the fifth amendment.

I should like to complete the statement which I had only partially made with reference to outstanding State and municipal securities.

There is a point of view to the effect that such outstanding securities, as well as the future issues of State and municipal securities, are not subject to taxation by the Federal Government. That view can be very strongly supported. However, there is a very definite conviction on the part of most lawyers and jurists in the country, and of most of the people of the country, that, under decisions of the Supreme Court, not taking into account the trend in recent cases, State and municipal securities are not subject to taxation by the Federal Government. Therefore there was a very strong moral case, at least, in behalf of the holders of such securities, which had been issued and were outstanding.

Mr. McNARY. Does the language on page 31 of the bill refer to the item which the Senator has been discussing?

Mr. GEORGE. Yes.

Mr. McNARY. If that is reached today—and I think there is an order of the Senate to consider the committee amendments first—I should prefer to have that section go over until tomorrow.

Mr. GEORGE. I think we can accommodate the Senator.

Mr. McNARY. I make that request because of the absence of a few Members of the Senate who particularly desire to be present when that section is discussed.

Mr. GEORGE. I will accommodate myself to the Senator's request.

Mr. McNARY. I appreciate the kindness of the Senator.

Mr. NORRIS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. NORRIS. Will the Senator state what change, if any, is made in the bill in regard to the taxation of gifts, or exemption of gifts from the income tax?

Mr. GEORGE. Does the Senator refer to the gift tax?

Mr. NORRIS. Yes.

Mr. GEORGE. There is no change in the gift-tax sections of the existing law or the House bill, except that the House bill provided for a total lifetime exemption of \$30,000.

Mr. NORRIS. In 1 year?

Mr. GEORGE. No; that is for the lifetime. It is cumulative.

Mr. NORRIS. What amount would be exempt in any one year?

Mr. GEORGE. The amount was cut from \$4,000 to \$3,000; so the largest nontaxable gift one may make in any one year to any one person would be \$3,000 without reducing his lifetime exemption.

Mr. NORRIS. And the total amount of such exemption in the case of any one person is \$30,000?

Mr. GEORGE. Thirty thousand dollars during his lifetime.

Mr. TUNNELL. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. TUNNELL. Is there any definition in the bill as to what is meant by personal holding companies?

Mr. GEORGE. Such a definition is in the existing law. So far as the definition of personal holding companies is concerned, the Senate bill makes no change, as I recall. There is a slightly different treatment of certain types of personal holding companies; but the definition of personal holding companies goes back to existing law. Neither the House bill nor the Senate committee amendment made any change.

Mr. TUNNELL. I observe that only the rate seems to have been changed, so I presume that the definition is dependent on some prior definition.

Mr. GEORGE. That is correct.

Mr. LEE. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. LEE. I believe the Senator explained that the excess-profits-tax provision provides that the Government shall take 90 percent of the tax above 95 percent of the normal tax. Is that correct?

Mr. GEORGE. No; above the credit. There are two credits against the excess-profits tax under our law. That is substantially true in Great Britain and Canada, with varying degrees of emphasis. The first is a credit based on the invested capital, and the second is based on 95 percent of the average earnings of the corporation through a base period, which is fixed in the bill from 1936 to 1939, inclusive. In other words, if the corporation earned an average of \$100,000 during the base period, its credit as against the excess-profits tax would be \$95,000. If it were incorporated at \$1,000,000, and were operating on the invested-capital basis, its credit would be 8 percent of its capital. I might also state that every corporation subject to the excess-profits tax is also entitled to an additional credit of \$5,000.

Mr. LEE. Is there any limitation on the amount of profit which the corporation may have made previously? For example, suppose the corporation made a profit of 50 percent. Would the bill still tax only 90 percent or 95 percent of that?

Mr. GEORGE. It will tax 90 percent of the excess-profits net income for the taxable year in excess of the credits. The corporation has the election to take either the invested capital or its average earnings as a credit against the excess-profits tax. If it elects the average earnings method, it can take only 95 percent of its average earnings during the 4 years, 1936-39, as a credit.

Mr. LEE. If the average earnings have been excessive, we should have to reach them in another provision. This provision would not reach them. It would still allow the corporation 95 percent of such earnings.

Mr. GEORGE. The corporate rates have gone up from 18 percent in 1940 to 40 percent in 1942. The 40-percent rate on normal earnings, combined with the rate on surtax earnings, will be applicable to the full year of operation in 1942.

Mr. OVERTON. Mr. President—

Mr. LEE. Mr. President, I should like to ask the Senator from Georgia a further question. I understood much of the explanation of the victory tax; but I wish the Senator at his own convenience would explain it again, in a very plain manner, so that I can fully understand the victory-tax proposal.

Mr. GEORGE. The victory tax is fully described in the report of the committee, on page 6. It is a tax of 5 percent of the victory tax net income in excess of \$624 for each taxable year beginning after December 31, 1942. It does not apply to the current year; in other words, it will commence next January.

In the case of husband and wife filing a joint return, if the victory tax net income of one of the spouses is not less than \$624, and that of the other is less than such sum, the aggregate specific exemption of both spouses is \$624 plus the victory tax net income of the spouse having a victory tax net income of less than \$624. The \$624 exemption is given both to single and to married persons. That is a matter of convenience, and almost of necessity, I should say, because the victory tax is accompanied by a withholding tax. Five percent of the salaries, wages, and personal compensation of each taxpayer is to be withheld beginning January 1. Domestic servants, farm labor, and men in the armed forces are exempted from the withholding provision, for obvious reasons; but all are to be required to pay 5 percent upon the income—that is, upon the victory tax net income. The exemption of \$624 will exempt privates in the Army from paying this tax.

Mr. LEE. What is the purpose of the proposal to return a part of the tax.

Mr. GEORGE. Let me say to the Senator that the chairman of the committee had a very strong desire, and has had for quite a long time, in view of the rapidly rising individual rates, to provide something for debt relief—that is, something which might be deducted when paid upon the principal of a debt, something to cover life insurance, including all types of insurance, of course, and something in the way of a post-war credit.

The \$624 exemption is given to both the married person and the unmarried person; but in the case of the married taxpayer the post-war credit is higher than it is in the case of the single taxpayer. An effort was made in that way somewhat to equalize the deduction. It was thought by the committee that \$624 would cover the cost of food to the average family, and perhaps a little more; but it was felt that \$624 was low enough to reach by any special or added tax,

such as the victory tax; and so that exemption is given, and, of course, the exemption is available to every taxpayer.

Mr. LEE. Is the tax to be withheld from pay?

Mr. GEORGE. It is to be withheld at the source from wages, salaries, and personal compensation. It will be withheld from our salaries.

Mr. OVERTON and Mr. WILEY addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Georgia yield; and if so, to whom?

Mr. GEORGE. I yield first to the Senator from Louisiana, who was the first to ask me to yield.

Mr. OVERTON. Mr. President, after the emergency arose, and before it was anticipated that as heavy a tax burden would be imposed upon the people as is represented by the pending bill, there were many individuals who contracted long-term obligations which they had every reason and prospect of being able to meet—as, for instance, in the purchase of homes or in the operation of a business or an industry. I desire to ascertain from the able senior Senator from Georgia whether any relief is proposed to be given to persons so circumstanced—individuals such as those I have mentioned.

Mr. GEORGE. So far as individuals are concerned, no relief is proposed except as provided under the victory tax, in connection with which the individual has a post-war credit. Let us take the case of a married man: He is entitled to a post-war credit of 40 percent of his tax, or \$1,000, whichever is the lesser. He may take up that credit currently either by paying life insurance or by paying a pre-existing debt. To the extent that he does not take it up, of course he will get a refund after the war.

Let me say to the Senator from Louisiana that long ago I urged, and have since consistently urged, that in computing the tax both individuals and corporations be allowed a deduction of 10 percent or 15 percent from gross income in order to cover debt payments; and I think it necessary because of the very high rate of taxes under which we now live. I prefer the direct method of allowing a deduction in computing the tax—let us say a deduction of 15 percent available to individuals and corporations. I still think it is sound. I have to recognize the validity of the argument advanced by our friends in the Treasury when they state that that would considerably reduce the revenue. That, I have to confess, is true.

We did one thing in the bill to which I should call attention, and I think it an important matter: We allowed a deduction, in computing the tax of all taxpayers, of expenses for unusual medical costs, including, of course, additional hospitalization, nurse hire, medicines, and so forth, in excess of 5 percent of the net income of the taxpayer. In no event can the deduction exceed \$2,500. That seemed to your committee to be a proper amendment to be inserted in our tax laws.

Mr. OVERTON. I think so.

Mr. WILEY. Mr. President, will the Senator yield?

Mr. OVERTON. Mr. President, if the Senator will permit me to make a further observation, let me say that I quite agree with the view expressed by the Senator from Georgia that some provision should be made for deduction from the income of a certain percentage of debt payment; otherwise, by reason of the heavy taxes to be imposed by the bill, those who have contracted obligations may find it very difficult, if not impossible, to meet them. Of course, full relief could not be granted; but it occurred to me that some modicum of relief might be granted in such cases.

Mr. GEORGE. Some relief is granted to the individuals, so far as the victory tax is concerned, and to corporations, so far as the excess-profits tax is concerned; but it is not granted to the corporation which pays only the normal tax and surtax, for the reason, as I tried to explain, that the committee thought it wiser to drop the rate from 45 percent to 40 percent, and to allow a corporation to take care of its debts out of that reduced rate.

Mr. OVERTON. I thank the Senator. Mr. WILEY and Mr. LANGER addressed the Chair.

The PRESIDING OFFICER. Does the Senator from Georgia yield; and, if so, to whom?

Mr. GEORGE. I yield first to the Senator from Wisconsin.

Mr. WILEY. I listened very attentively to the explanation given by the distinguished Senator. I see there is nothing in the bill in respect to the suggestion of the President as to a limitation of \$25,000 on incomes. Am I correct in that respect?

Mr. GEORGE. There is no limitation on salaries, but I should like to state that if anyone will apply to income the burden tables, which are to be found in the report, he will see that relatively few people in the United States will have salaries that will net them more than \$25,000 a year.

Mr. WILEY. Probably that answers the further question I wish to ask.

Mr. GEORGE. That is to say, one would have to have a net income of more than \$50,000, in order to have a \$25,000 net income, after taxes.

Mr. WILEY. I wanted to follow my first question by another one. The bill applies to corporations the doctrine of excess profits. We have had a number of instances around Washington of men who directly, because of the war effort, have made tremendous sums. I see the committee has not applied the doctrine of excessive profits to the individual taxpayer.

Mr. GEORGE. We have increased the surtax rate to 13 percent in the first bracket, which is the \$2,000 income bracket, and above the \$200,000 income level; the rate is 82 percent.

Mr. WILEY. I understand that.

Mr. GEORGE. So that the 82-percent surtax plus the 6-percent normal gives 88 percent on all incomes in excess of \$200,000.

Mr. DOWNNEY. Mr. President, will the Senator yield for a comment?

Mr. WILEY. I should like to say a word further, if the Senator will permit me. As I understand, in the case of the excess-profits tax, a certain period of years when a normal income has been made is taken as the base. Now along comes the war, and, because of war activities, a corporation has made decidedly more money; so it is said it should be subject to an excess-profits tax.

We have known in this city of instances of employees of the Government who made \$7,500 a year, but who left the positions they occupied for reasons satisfactory to themselves and became agents, or whatever one may wish to call it, and immediately their earnings went up to \$200,000, \$300,000, or perhaps \$400,000 a year as a direct result of the war effort. It seems to me that such taxes should be provided as will let the people of this country know that men who, because of the war effort, have had their earnings so greatly increased, will pay their share of the war endeavor.

Mr. GEORGE. I understand that the Senator is suggesting the application of the excess-profits tax principle to individuals?

Mr. WILEY. Yes.

Mr. GEORGE. As well as to corporations?

Mr. WILEY. Yes, during the war period.

Mr. GEORGE. It is a rather difficult principle to apply to individuals. It would be very unjust in the case of a man who did not have any job at all in the base period and did not have any earnings to tax him at a very steep rate because he was earning something at this time.

Mr. WILEY. I appreciate that, but such a case might be covered by a reasonable limitation of \$25,000 a year.

Mr. GEORGE. There are a great many difficulties. The question was discussed by the committee and the principle was suggested and advocated by the able Senator from Texas, but a majority of the committee took the contrary view. I think I may say on that point that the Treasury did not approve it.

Mr. WILEY. I should like to ask a further question. As I understand, the victory tax, as explained by the Senator, is applied to salaries and, indeed, to all income?

Mr. GEORGE. To all income except capital gains; it is not applied to capital gains.

Mr. WILEY. Then, as I understand, it would work in this way: For instance, in the case of a Senator of the United States, he would be entitled to a credit of \$624, and the 5 percent would be deducted from his salary by the disbursing officer. Is that correct?

Mr. GEORGE. That is correct.

Mr. WILEY. I should like to know how it will apply, say, to an individual who has an income of \$3,000 from bonds and securities. He will make a return, whatever it is, and pay the victory tax directly, just as in the case of his other taxes, will he not?

Mr. GEORGE. He will pay it as in the case of the other taxes in his regular tax returns. It will be an added tax.

Mr. DOWNEY. Mr. President—

Mr. GEORGE. I yield to the Senator from California.

Mr. DOWNEY. As I understood the Senator from Georgia, he stated that the combined regular and surtax reached a maximum of 82 percent in the highest bracket?

Mr. GEORGE. The combined normal and surtax on individuals reaches a maximum of 88 percent on all incomes in excess of \$200,000.

Mr. DOWNEY. I should like to suggest that many States have income-tax structures already set up. I believe in the State of California it reaches a maximum of 15 percent; so that the combined State and Federal taxes would be confiscatory on all incomes in excess of \$200,000.

Mr. GEORGE. It is rather severe. I call attention to the fact that the State income tax on individuals runs from 1 to 15 percent in more than 34 States, and, as I recall it, it runs from 1 to 8 percent on corporations in some 33 States. So in this bill a ceiling is provided—we were obliged to put it in—that, so far as Federal taxes are concerned, the effective tax which any individual could be required to pay or the effective tax liability could not exceed 90 percent of his net income. In the case of an income of a million dollars, it can readily be seen that when \$900,000 is taken for taxes there is left \$100,000. For the same reason we imposed a ceiling on corporate taxes, that is to say, there is a flat ceiling on the combined or the effective tax rate against corporations. That is not so material, for, in view of the fact that the 45 percent normal and surtax is reduced to 40 percent. There would be very few cases in which the ceiling would have to be applied; but the bill places a ceiling on the effective corporate rates as well as a ceiling on the effective individual rates. As the Senator from California knows, however, and as he has properly pointed out, that does not relieve the situation where a State income tax runs as high as 10 or 15 percent.

Mr. DOWNEY. Mr. President, will the Senator further yield?

Mr. GEORGE. I am glad to yield.

Mr. DOWNEY. There is one other issue I should like to have the Senator from Georgia clarify. I have no desire to appear as a champion of the wealthy man, but we all know that many wealthy men devote large sums to philanthropic purposes. Perhaps a man with an income of a million dollars has, through the years, been maintaining or helping maintain educational and other institutions. There has heretofore been in the law, as I understand, an exemption both for corporations and for individuals on account of charitable bequests. I understand that has been moderated in some way, but I am not quite clear how it has been done.

Mr. GEORGE. Is the Senator referring to charitable and religious or educational donations?

Mr. DOWNEY. Yes.

Mr. GEORGE. There has been a change made. An individual is entitled to a deduction for charitable contribu-

tions made within the taxable year up to 15 percent of his net income, computed without such deduction. That remains as in the existing law.

Corporations are permitted to deduct charitable contributions up to 5 percent of their net income, computed without such deductions. The committee made two important changes in the law, but without affecting the percentage that could be taken by way of deduction. In the case of corporations, under existing law a corporation cannot take a deduction for contributions to charitable or religious or other like purposes if the money is to be used outside the United States. We removed that limitation because there are at this time abundant reasons for many organizations, such as the Red Cross and others, spending money outside the United States.

We also did another thing which I think is important: Under existing law an individual may make a gift to the Government of the United States, to any State or to any political subdivision, the District of Columbia, or any Territory of the United States; but a corporation is forbidden to take a deduction of any gift made to the Federal Government or to any State. We have removed that limitation so that the corporation may make a gift to the Federal Government or to a State or to any political subdivision, the District of Columbia, or any Territory of the United States.

Mr. WILEY. Within the 15-percent limitation?

Mr. GEORGE. Within the 5-percent limitation as to corporations. There has been no change in the limitation. The 15-percent limitation as to the individual has not been changed.

Mr. DOWNEY. Mr. President, may I ask the Senator another question?

Mr. GEORGE. I yield.

Mr. DOWNEY. My recollection is that I read in the newspapers that the committee had contemplated some change in the 15-percent deduction for charitable purposes. Was such a change contemplated?

Mr. GEORGE. No; no such change was contemplated. There were some newspaper stories which might have led the Senator to conclude that that was proposed before the House Committee on Ways and Means, but not before the Senate Committee on Finance.

Mr. LANGER. Mr. President, will the Senator yield?

Mr. GEORGE. I am glad to yield, and I am sorry I was not able to do so earlier.

Mr. LANGER. I wish to ask the Senator from Georgia how cooperative companies are treated.

Mr. GEORGE. Does the Senator mean nonprofit associations?

Mr. LANGER. Yes.

Mr. GEORGE. As to them we did not change the provision of existing law at all. Generally speaking, they are not subject to the corporate taxes imposed in the bill; but we made no change in the existing law. The only change made was with reference to mutual insurance companies.

Mr. LANGER. I was about to ask about that.

Mr. GEORGE. I referred to that in my general statement.

Mr. LANGER. That will cover an ordinary farm insurance company?

Mr. GEORGE. Oh, yes.

Mr. LANGER. The tax is 1 percent now?

Mr. GEORGE. Approximately 80 percent of the small farm mutuals are exempt under the provision, which does not impose a tax at all if the income from premiums, rents, interest, dividends, and so forth, does not exceed \$75,000 in the taxable year.

Mr. LANGER. I should like to ask if the Senator will state his personal reaction to a situation which I shall outline. In the Northwest, as the Senator knows, there was a drought period which lasted 8, 9, or 10 years. The farmers in that region, of course, had to make feed and seed loans. Some owe for the past 10 or 11 years. The loans are owed to the United States Government. Thousands of farmers have such loans, and thousands more owe money to the Federal land bank. The land is mortgaged to the Government for really all it is worth. Would not the Senator think such cases would be in about the same class with the cases of corporations which have the 15-percent exemption?

Mr. GEORGE. They do not have a 15-percent exemption.

There are strong reasons why any taxpayer who is in debt should be allowed to make some deduction in computing his taxes for payments on the principal of his debt. Of course, he may pay his interest and have a deduction for interest payments under existing law. I very much wish to see something done to make it possible for a deduction to be allowed in the case of payments on principal, I may say to the Senator. Since our laws are general, it would have to apply to all debtor taxpayers; but in view of the very high rates in the pending bill, and with the very definite assurance that they must go still higher, there would be and is a great deal of justice in saying that in computing taxes there should be a deduction for debt payments.

Mr. LANGER. Seed and feed loans, would the Senator say?

Mr. GEORGE. Oh, yes; I would include any fixed indebtedness against any taxpayer, provided the debt were contracted in good faith, and prior to some fixed date, so that no fraud could be perpetrated on the revenue.

Mr. LANGER. Has the Senator any objection to my preparing an amendment and submitting it to him?

Mr. GEORGE. I should be very glad to consider it. I may say to the Senator, however, that during the study of the tax bill in the committee we did give some consideration to debt relief, and it was urged by several witnesses. Notably, former Governor Hobby, of Texas, appeared and made a rather strong statement for some relief to taxpayers who labored under the burden of a fixed debt which, under the high rates, they could not pay.

Mr. LANGER. But the debts about which I am speaking are owed to the Government itself.

Mr. GEORGE. Some relief is afforded in existing law in the case of commodity credit loans, and I believe the House has made no further change.

Mr. LANGER. That is the matter to which I have reference.

Mr. GEORGE. I do not recall exactly what change was made by the House in the existing law with reference to those loans. I should be very glad to consider the amendment referred to by the Senator.

Mr. GREEN. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. GREEN. I understand that in the pending bill there is proposed an amendment of existing law by which the tax provided by the existing law would be reduced. It seems strange to include such an amendment in a bill whose object is to increase the revenue. The item to which I have reference is a provision in the social-security law by which the tax will be increased 2 percent beginning with January 1, 1943. Under the present law the tax is fixed at 1 percent, and by the pending measure it is to be changed. May I ask the Senator what the explanation of the committee may be for such a change?

Mr. GEORGE. Under existing law the social security tax—to use the general term—is 1 percent against the employer and 1 percent against the employee, or a total of 2 percent. Under the operation of the law as it now exists the tax is to be stepped up, or doubled, beginning with January 1, 1943. An amendment was approved by the Senate Finance Committee freezing the tax, for 1943 only, at the existing level. That was done under the general assertion or statement of fact made by the Senator from Michigan [Mr. VANDENBERG], a member of the committee, on the floor of the Senate some days ago, to the effect that the social security reserves are now more than ample to meet any possible liability under the Social Security Act over a 5-year period, I believe it is, or a stated period, and that it would therefore be unnecessary to increase the tax on January 1, 1943.

Mr. GREEN. Was the basis of that statement investigated by the committee?

Mr. GEORGE. I think the facts were very well known to the committee. I do not think there is any dispute about the size of the present reserves and of the estimated liability under the Social Security Act. There was a view expressed in the committee—I may say that I expressed it myself—that the widening of the social-security law, and the increase of benefits under it, were contemplated, and that therefore we should not freeze the tax, or at least it was highly questioned whether we should freeze the tax at the present rate. However, since the tax to be imposed under the pending bill on the employer and the employee is high, and in view of the fact that the tax burden would be very great, and in view of the fact that the reserves to meet present liabilities under the existing law were ample, the Senator from Michigan offered an amendment to freeze the tax for 1943, and the committee adopted it. That would not preclude

consideration of the whole social-security system, and the widening of the coverage and increases in benefits. Of course, if that were done, the law itself, by which the benefits were increased and coverage widened, would carry some provision for an appropriate rate to take care of the liability under it, and it would have the effect of superseding the committee amendment, even if the committee amendment were finally approved by the Senate.

Mr. GREEN. However, as I understand, it would preclude the expansion of the social-security service unless the present law were reenacted.

Mr. GEORGE. No. While I personally was not in favor of the amendment, and suggested that we should not put it in the bill, I do not think there is any doubt that the reserves are more than ample to meet any possible liability under the social-security law during the next 5-year period, that is to say, by allowing the rate to remain during 1943 at the present level. The freezing is to be applicable only to 1943. Thereafter, unless a further freezing process is provided, the rates would go up beginning with January 1, 1944. But so far as present benefits and possible liability are concerned, I do not think there is any question that the present reserves are ample to take care of them, because unemployment, as the Senator knows, is rapidly vanishing under the impact of the war effort.

Mr. GREEN. I thank the distinguished Senator from Georgia for his explanation. I should like to ask one further question. Did the change meet with the approval of the Treasury Department?

Mr. GEORGE. No; the Treasury did not approve it.

Mr. President, I now ask that the Senate proceed to consider the committee amendments.

Mr. McCARRAN. Mr. President, I should like to address a question to the Senator from Georgia. Sometime ago the Senator from Oregon [Mr. McNARY] requested that the subject matter commencing on page 31 go over until tomorrow, if it were reached today. I take it that the request, as well as the reply, was broad enough to cover the entire subject of taxation of income from municipal and State securities.

Mr. GEORGE. The Senator from Nevada is correct. The Senator from Nevada addressed a letter to me as chairman of the committee in which he made inquiry whether the income derived from municipal bonds, or bonds issued by local taxation districts, when purchased and held by a State in its treasury, would be subject to the tax, and I replied assuring the Senator that in my opinion it would not in any event be subject to the tax.

Mr. McNARY. I suggest the absence of a quorum.

The PRESIDING OFFICER. The clerk will call the roll.

The legislative clerk called the roll, and the following Senators answered to their names:

Aiken	Bankhead	Bone
Andrews	Barbour	Brewster
Bailey	Barkley	Brooks
Ball	Bilbo	Brown

Bulow	Hill	Reed
Bunker	Holman	Reynolds
Butler	Johnson, Calif.	Rosier
Byrd	Johnson, Colo.	Schwartz
Capper	Kilgore	Shipstead
Caraway	La Follette	Smathers
Chandler	Langer	Spencer
Chavez	Lee	Stewart
Clark, Idaho	Lucas	Taft
Clark, Mo.	McCarran	Thomas, Idaho
Connally	McFarland	Thomas, Okla.
Danaher	McKellar	Thomas, Utah
Davis	McNary	Truman
Downey	Maloney	Tunnell
Doxey	Maybank	Tydings
Ellender	Millikin	Vandenberg
George	Murdock	Van Nuys
Gerry	Murray	Wagner
Gillette	Norris	Wallgren
Green	Nye	Walsh
Guffey	O'Daniel	Wheeler
Gurney	O'Mahoney	White
Hatch	Overton	Wiley
Hayden	Pepper	Willis
Herring	Radcliffe	

The PRESIDING OFFICER. Eighty-six Senators having answered to their names, a quorum is present.

The clerk will proceed to state the committee amendments.

The first amendment of the Committee on Finance was, on page 10, line 13, after the word "interest", to strike out "rent, annuities, or royalties" and insert "or annuities."

The amendment was agreed to.

The next amendment was, on page 10, after line 13, under the subhead "The tax shall be—", at the top of the last column to the right, to strike out:

(1) Married person whose spouse does not make separate return or.

And insert:

(1) Married person whose spouse has no gross income or.

The amendment was agreed to.

The next amendment was, at the top of page 11, under the subhead "The tax shall be—", at the top of the last column to the right, to strike out:

(1) Married person whose spouse does not make separate return or.

And insert:

(1) Married person whose spouse has no gross income or.

The amendment was agreed to.

The next amendment was, on page 11, in the third item from the bottom in the last column to the right, to strike out the numeral "56" and insert "55."

The amendment was agreed to.

The next amendment was, on page 12, after the subhead "The tax shall be—", in the last column to the right, to strike out:

(1) Married person whose spouse does not make separate return or.

And insert:

(1) Married person whose spouse has no gross income or.

The amendment was agreed to.

The next amendment was, on page 13, under the subhead "The tax shall be—", at the top of the last column to the right, to strike out:

(1) Married person whose spouse does not make separate return or.

And insert:

(1) Married person whose spouse has no gross income or.

The amendment was agreed to.

The next amendment was, on page 13, line 3, after the word "income", to strike out "\$440" and insert "\$330."

The amendment was agreed to.

The next amendment was, on page 14, line 11, after "(B)" and the period, to insert "A payment to a wife which is includible under section 22 (k) or section 171 in the gross income of such wife shall not be considered a payment by her husband for the support of any dependent."

Mr. McNARY. Mr. President, that is new language inserted by the Senate Finance Committee. Will the chairman of the committee explain that provision?

Mr. GEORGE. The language is simply a transfer of old language. All it means is that alimony payments are not considered to be in support of dependents. The Senator from Oregon will see that the language on page 59, lines 7 to 10, is simply transferred to page 14 in the bill.

Mr. McNARY. So it originated in the House?

Mr. GEORGE. Yes; it is a House provision.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 14, beginning in line 11.

The amendment was agreed to.

The next amendment was, on page 15, line 3, before the word "tax", to strike out "his."

The amendment was agreed to.

The next amendment was, on page 16, line 11, after "reduced", to insert a comma and the words: "and minus, in the case of a public utility, the credit for dividends paid on its preferred stock provided in section 26 (h). For the purposes of this subsection dividends received on the preferred stock of a public utility shall be disregarded in computing the credit for dividends received provided in section 26 (b)."

The amendment was agreed to.

The next amendment was, on page 16, line 19, after the word "corporation", to insert "(except a Western Hemisphere trade corporation as defined in section 109, and."

The amendment was agreed to.

The next amendment was, on page 17, at the beginning of line 6, before the words "per centum", to strike out "32" and insert "22."

Mr. LA FOLLETTE. Mr. President, I should like to ask the able chairman of the committee whether he desires at this time to go into the whole question of corporation taxes, or whether he prefers to proceed and pass over those amendments as to which there is substantial controversy, and dispose of the amendments with respect to which there is little or no controversy? The amendment now under consideration is the committee's proposal to reduce the combined rate on normal and surtax from the House rate of 45 percent to the Senate committee's rate of 40 percent. I desire to offer an amendment, but my amendment would be not only to the rate but also to the text of the bill. I desire merely to know what the Senator from Georgia prefers to do. Does he prefer to go through the bill today and take up the amendments as to which there is not much controversy and

the technical amendments, and then go back over the bill for the consideration of amendments as to which there is greater controversy? What is his pleasure? I desire to accommodate myself in any way I can to relieve, insofar as possible, the onerous burden which I know rests upon the shoulders of the able Senator from Georgia.

Mr. GEORGE. Mr. President, I should prefer to go on with the bill and dispose of the amendments as to which there is no serious controversy.

Mr. LA FOLLETTE. That would be entirely satisfactory to me. I therefore ask that the pending amendment be passed over temporarily.

Mr. GEORGE. Let me suggest to the Senator from Wisconsin that any amendments which would not affect the amendment which he desires to offer might be disposed of.

Mr. LA FOLLETTE. I desire to change the brackets and also to change the rate. Therefore I ask that the committee amendment proposing a reduction in the rate may be passed over.

Mr. GEORGE. That amendment is on page 17, is it not?

Mr. LA FOLLETTE. On page 17, line 6. The PRESIDING OFFICER. Without objection, the amendment will be passed over.

Mr. TYDINGS. Mr. President, will the Senator yield?

Mr. GEORGE. I yield.

Mr. TYDINGS. I call attention to subsection (d) on page 209, entitled "Taxable years to which amendments applicable." I have been engaged in an effort to clarify the provision by way of an amendment, which I hope the committee chairman and other members of the committee will accept as being in line with the philosophy so far expressed in the amendment as printed; but I wish to carry it a little further in detail. When we reach that amendment, I should like to have it go over until I can confer with the chairman and other members of the committee to see if we cannot work it out without controversy on the floor.

Mr. GEORGE. I shall be very glad to do so if the Senator will call my attention to it.

The PRESIDING OFFICER. The clerk will state the next committee amendment.

The next amendment was, on page 17, at the end of line 9, before the words "per centum", to strike out "21" and insert "16."

Mr. GEORGE. That amendment should also be passed over in accordance with the request of the Senator from Wisconsin [Mr. LA FOLLETTE].

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The next amendment was, on page 18, line 7, after "section 710 (b)" and the period, to strike out "In the case of any corporation computing such tax under section 721 (relating to abnormalities in income in the taxable period), section 722 (relating to constructive average base period net income), or section 726 (relating to corporations completing contracts under the Merchant Marine Act of 1936), the credit shall be the amount

of which the tax imposed by such subchapter is 90 percent." and insert "In the case of any corporation computing such tax under section 721 (relating to abnormalities in income in the taxable period), section 726 (relating to corporations completing contracts under the Merchant Marine Act of 1936), or section 731 (relating to corporations engaged in mining strategic minerals) the credit shall be the amount of which the tax imposed by such subchapter is 90 percent. For the purpose of the preceding sentence the term 'tax imposed by subchapter E of chapter 2' means the tax computed without regard to the limitation provided in section 710 (a) (1) (B) (the 80 percent limitation), without regard to the credit provided in section 729 (c) and (d) for foreign taxes paid, and without regard to the adjustments provided in section 734."

Mr. GEORGE. Mr. President, I ask the Senator from Wisconsin if he has any objection to the approval of this amendment.

Mr. LA FOLLETTE. No; I do not think that affects the matter with respect to which I propose to offer an amendment, because the amendment which I propose to offer has to do with corporation taxes.

Mr. GEORGE. Normal and surtax?

Mr. LA FOLLETTE. Normal and surtax.

Mr. GEORGE. I do not believe the pending amendment would affect it.

Mr. LA FOLLETTE. I am perfectly willing to accept the committee's proposal with regard to this provision.

The PRESIDING OFFICER. The question is on agreeing to the committee amendment on page 18, beginning in line 7.

The amendment was agreed to.

The next amendment was, on page 20, after line 10, to strike out:

(B) Subsection (b) (2) is amended to read as follows:

"(2) The amount of the net operating loss, if any, for the second preceding taxable year reduced by the excess, if any, of the net income (computed with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (3), (4), and (6)) for the first preceding taxable year over the net operating loss for the third preceding taxable year."

The amendment was agreed to.

The next amendment was, on page 20, at the beginning of line 20, to strike out "(C)" and insert "(B)."

The amendment was agreed to.

The next amendment was, on page 20, at the beginning of line 24, to strike out "(D)" and insert "(C)."

The amendment was agreed to.

The next amendment was, on page 21, line 24, before the words "per centum", to strike out "37" and insert "30."

Mr. GEORGE. This amendment refers to the tax on nonresident alien individuals. As I understand, the Senator from Wisconsin does not wish to have this amendment go over.

Mr. LA FOLLETTE. No.

The amendment was agreed to.

Mr. McNARY. Mr. President, I desire to propose a question to the able chairman of the committee. I should like to

have him help me find in the bill, which is as large as a book, the section referring to depletable resources. It is concealed somewhere in the bill.

Mr. GEORGE. Does the Senator refer to percentage depletion?

Mr. McNARY. The section I have in mind refers to depletable resources, and allowances made for depletion.

Mr. GEORGE. Does the Senator mean excessive depletion, or percentage depletion in the case of oil?

Mr. McNARY. I wish to offer an amendment at the appropriate time covering timber resources.

Mr. GEORGE. There is no appropriate place in the bill for it.

Mr. McNARY. I think there is.

Mr. GEORGE. That would be after the committee amendments are all out of the way.

Mr. McNARY. The Senator has more familiarity with the bill than I have, but probably insufficient familiarity to understand all its provisions.

Mr. GEORGE. The Senator from Georgia does not pretend to be able to understand all its provisions.

Mr. McNARY. I realize the modesty and truthfulness of the statement.

Mr. THOMAS of Oklahoma. The provision to which the Senator refers appears on page 129.

Mr. McNARY. I thank the Senator. The Senator from Oklahoma probably understands the bill. At any rate, if I should be absent from the floor today on official business when we reach that provision, I should like to have it go over, because I intend to offer an amendment to include timber resources within the provisions found on that page.

Mr. LA FOLLETTE. Mr. President, is the Senator interested in this question from the standpoint of resources which are being depleted at an excessive rate due to the demands of war?

Mr. McNARY. Yes.

Mr. LA FOLLETTE. In all probability the logical place for his amendment would be in connection with the provisions which the committee has incorporated with regard to excessive depletion resulting from the demands of war on mining property resources.

Mr. TAFT. Mr. President, the Senator will find that provision on pages 352, 353, and following.

Mr. GEORGE. Let me say to the Senator from Oregon that the Senate committee made no amendments in section 147 on page 129; so any amendment he desires to offer to that section, would, of course, properly come after the committee amendments are out of the way, if that is the point where his amendment is to be inserted.

Mr. McNARY. I have had the bill on my desk only 1 day, and at home only 1 evening. I speak now without full knowledge of its contents. I wish to determine the proper place in the bill for my amendment. I now advise the able Senator in charge of the bill that I shall offer the amendment to which I refer. The suggestion reached my desk only a few moments ago.

Mr. GEORGE. I think the Senator would probably desire to consider amending section 735, to be found on page 353.

His amendment would seem appropriate there. If it is not appropriate there, of course, it could be offered at any appropriate place in the bill.

Mr. McNARY. I thank the Senator from Georgia and other Senators who were able to assist me.

The PRESIDING OFFICER. The clerk will state the next amendment of the committee.

The next amendment was, on page 22, line 4, after the word "than", to strike out "\$22,900" and insert "\$15,400"; in line 7, after the word "than", to strike out "\$22,900" and insert "\$15,400"; and in line 11, after the word "than", to strike out "\$22,900" and insert "\$15,400."

The amendment was agreed to.

The next amendment was, on page 22, line 13, after the word "than", to strike out "\$22,900" and insert "\$15,400", and in line 16, after the word "thereof", to strike out "\$22,900" and insert "\$15,400."

The amendment was agreed to.

The next amendment was, on page 22, line 17, before the words "per centum", to strike out "37" and insert "30", and in line 21, before the words "per centum", to strike out "37" and insert "30."

The amendment was agreed to.

The next amendment was, on page 23, line 1, before the words "per centum", to strike out "37" and insert "30."

The amendment was agreed to.

The next amendment was, on page 23, line 10, before the words "per centum", to strike out "37" and insert "30."

The amendment was agreed to.

The next amendment was, on page 23, after line 10, to insert:

(b) Limitation on rate of withholding in certain cases: Section 143 (b) is amended by inserting before the period at the end of the first sentence the following: "Provided further, That the deduction and withholding in the case of interest on bonds, mortgages, or deeds of trust or other similar obligations of a corporation, within the provisions of subsection (a) (1) of this section were it not for the fact that the maturity date of such obligations has been extended on or after January 1, 1934, and the liability assumed by the debtor exceeds 27½ per centum of the interest, shall not exceed the rate of 27½ per centum per annum."

The amendment was agreed to.

The next amendment was, on page 23, line 22, before the word "Subsection", to strike out "(b)" and insert "(c)."

The amendment was agreed to.

The next amendment was, on page 24, after line 4, to insert:

SEC. 110. Transfers of life insurance contracts, etc.

(a) Proceeds exempt to transferee: Section 22 (b) (2) (relating to annuities, etc.) is amended by inserting a period and the following new sentence before the semicolon at the end thereof: "The preceding sentence shall not apply in the case of such a transfer if such contract or interest therein has a basis for determining gain or loss in the hands of a transferee determined in whole or in part by reference to such basis of such contract or interest therein in the hands of the transferor."

The amendment was agreed to.

The next amendment was, on page 24, after line 14, to insert:

(b) Taxable years to which amendment applicable: The amendment made by this

section shall be applicable with respect to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 24, after line 18, to strike out:

SEC. 110. Annuity trusts.

And insert:

SEC. 111. Income received from estates, etc., under gifts, bequests, etc.

The amendment was agreed to.

The next amendment was, on page 25, line 9, after the word "distribution", to strike out "of the amount thereof is to be made at intervals, to the extent that such amount" and insert "thereof is to be made at intervals, to the extent that it."

The amendment was agreed to.

The next amendment was, on page 25, after line 15, to strike out:

(b) Income of estate or trust: Section 162 (relating to net income of estates or trusts) is amended by inserting at the end thereof the following new subsection:

"(d) For the purposes of subsections (b) and (c), in cases where the amount paid or credited or to be distributed can be paid, credited, or distributed out of other than income or out of income other than income of the estate or trust for its taxable year, to the extent that the amount paid or credited or to be distributed to a legatee or beneficiary does not exceed the income allocable to such legatee or beneficiary it shall be considered as income of the estate or trust which is paid or credited or to be distributed."

The amendment was agreed to.

The next amendment was, on page 26, after line 2, to strike out:

(c) Payments or credits to which amendments applicable: The amendments made by this section shall be applicable only to income paid or accrued or to be distributed or amounts paid or credited or to be distributed after December 31, 1941.

The amendment was agreed to.

The next amendment was, on page 26, after line 7, to insert:

(b) Deduction of income to be distributed currently: Section 162 (b) (relating to deduction of income to be distributed currently) is amended to read as follows:

"(b) There shall be allowed as an additional deduction in computing the net income of the estate or trust the amount of the income of the estate or trust for its taxable year which is to be distributed currently by the fiduciary to the legatees, heirs, or beneficiaries, but the amount so allowed as a deduction shall be included in computing the net income of the legatees, heirs, or beneficiaries whether distributed to them or not. As used in this subsection, 'income which is to be distributed currently' includes income for the taxable year of the estate or trust which, within the taxable year, becomes payable to the legatee, heir, or beneficiary. Any amount allowed as a deduction under this paragraph shall not be allowed as a deduction under subsection (c) of this section in the same or any succeeding taxable year."

The amendment was agreed to.

The next amendment was, at the top of page 27, to insert:

(c) Trust income included in income of beneficiary, etc.: Section 162 (relating to net income of estates or trusts) is amended by striking out the period at the end of subsection (c) and inserting in lieu thereof a semicolon and the following new subsection:

"(d) Rules for application of subsections (b) and (c): For the purposes of subsections (b) and (c)—

"(1) Amounts distributable out of income or corpus: In cases where the amount paid, credited, or to be distributed can be paid, credited, or distributed out of other than income, the amount paid, credited, or to be distributed (except under a gift, bequest, devise, or inheritance not to be paid, credited, or distributed at intervals) during the taxable year of the estate or trust shall be considered as income of the estate or trust which is paid, credited, or to be distributed if the aggregate of such amounts so paid, credited, or to be distributed does not exceed the distributable income of the estate or trust for its taxable year. If the aggregate of such amounts so paid, credited, or to be distributed during the taxable year of the estate or trust in such cases exceeds the distributable income of the estate or trust for its taxable year, the amount so paid, credited, or to be distributed to any legatee, heir, or beneficiary shall be considered income of the estate or trust for its taxable year which is paid, credited, or to be distributed in an amount which bears the same ratio to the amount of such distributable income as the amount so paid, credited, or to be distributed to the legatee, heir, or beneficiary bears to the aggregate of such amounts so paid, credited, or to be distributed to legatees, heirs, and beneficiaries for the taxable year of the estate or trust. For the purposes of this paragraph 'distributable income' means either (A) the net income of the estate or trust computed with the deductions allowed under subsections (b) and (c) in cases to which this paragraph does not apply, or (B) the income of the estate or trust minus the deductions provided in subsections (b) and (c) in cases to which this paragraph does not apply, whichever is the greater. In computing such distributable income the deductions under subsections (b) and (c) shall be determined without the application of paragraph (2).

The amendment was agreed to.

The next amendment was, on page 28, after line 18, to insert:

"(2) Amounts distributable out of income of prior period: In cases, other than cases described in paragraph (1), if on a date more than 65 days after the beginning of the taxable year of the estate or trust, income of the estate or trust for any period becomes payable, the amount of such income shall be considered income of the estate or trust for its taxable year which is paid, credited, or to be distributed to the extent of the income of the estate or trust for such period, or if such period is a period of more than 12 months, the last 12 months thereof.

The amendment was agreed to.

The next amendment was, on page 29, after line 5, to insert:

"(3) Distributions in first 65 days of taxable year:

"(A) General rule: If within the first 65 days of any taxable year of the estate or trust beginning after January 1, 1942, income of the estate or trust, for a period beginning before the beginning of the taxable year, becomes payable, such income, to the extent of the income of the estate or trust for the part of such period not falling within the taxable year or, if such part is longer than 12 months, the last 12 months thereof, shall be considered, paid, credited, or to be distributed on the last day of the preceding taxable year. This subparagraph shall not apply with respect to any amount with respect to which subparagraph (A) applies."

The amendment was agreed to.

The next amendment was, on page 29, after line 20, to insert:

"(B) Payable out of income or corpus: If within the first 65 days of any taxable year of the estate or trust beginning after January 1, 1942, an amount which can be paid at intervals out of other than income becomes payable, there shall be considered as paid, credited, or to be distributed on the last day of the preceding taxable year the part of such amount which bears the same ratio to such amount as the part of the interval not falling within the taxable year bears to the period of the interval. If the part of the interval not falling within the taxable year is a period of more than 12 months, the interval shall be considered to begin on the date 12 months before the end of the taxable year."

The amendment was agreed to.

The next amendment was, on page 30, after line 11, to insert:

(d) Technical amendment: Section 164 (relating to different taxable years of estate or trust and beneficiary) is amended by striking out "beneficiary" and inserting in lieu thereof "legatee, heir, or beneficiary."

The amendment was agreed to.

The next amendment was, on page 30, after line 15, to insert:

(e) Taxable years to which amendments applicable: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1941; except that in the case of income paid, credited, or to be distributed or amounts paid, credited, or to be distributed by an estate or trust the amendments made by this section shall be applicable only with respect to such income and such amounts paid, credited, or to be distributed on or after the beginning of the first taxable year of the estate or trust, as the case may be, beginning after December 31, 1941.

The amendment was agreed to.

Mr. GEORGE. Mr. President, beginning on page 31 there appears a clerical amendment. The original text is stricken out, and then follows an amendment providing for a tax on incomes from future issues of State and municipal securities. At the request of the senior Senator from Oregon [Mr. McNARY] I agreed that the amendment should go over. I now ask that it be passed over.

The PRESIDING OFFICER. Without objection, the amendment beginning on page 31, line 1, and continuing to page 38, through line 16, will be passed over.

Mr. GEORGE. That brings us to the amendment on page 38, beginning in line 17.

The next amendment was, on page 38, after line 16, to insert:

Sec. 113. Exclusion of pensions, annuities, etc., for disability resulting from military service.

Section 22 (b) (5) (relating to exclusions from gross income of compensation for injuries or sickness) is amended by inserting before the semicolon at the end thereof the following: ", and amounts received as a pension, annuity, or similar allowance for personal injuries or sickness resulting from active service in the armed forces of any country."

The amendment was agreed to.

The next amendment was, at the top of page 39, to strike out:

Sec. 112. Extension of period during which income from discharge of indebtedness excluded.

Section 22 (b) (9) (relating to exclusion from gross income of corporate income derived from discharge of indebtedness) is amended by striking out "beginning after December 31, 1942" and inserting in lieu thereof "beginning after December 31, 1945."

The amendment was agreed to.

The next amendment was, on page 39, after line 8, to insert:

Sec. 114. Exclusion of income from discharge of indebtedness.

(a) General rule: Section 22 (b) (9) (relating to exclusion from gross income of corporate income derived from discharge of indebtedness) is amended to read as follows:

"(9) Income from discharge of indebtedness: In the case of a corporation, the amount of any income of the taxpayer attributable to the discharge within the taxable year, of any indebtedness of the taxpayer or for which the taxpayer is liable evidenced by a security (as hereinafter in this paragraph defined) if the taxpayer makes and files at the time of filing the return, in such manner as the Commissioner, with the approval of the Secretary, by regulations prescribes, its consent to the regulations prescribed under section 113 (b) (3) then in effect. In such case the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income and the amount of the deduction attributable to any unamortized discount (computed as of the first day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. As used in this paragraph the term 'security' means any bond, debenture, note, or certificate, or other evidence of indebtedness, issued by any corporation. This paragraph shall not apply to any discharge occurring before the date of enactment of the Revenue Act of 1939, or in a taxable year beginning after December 31, 1945."

Mr. WHITE. Mr. President, let me ask the Senator from Georgia whether the provision with respect to exclusion of income from the discharge of indebtedness is limited to corporations?

Mr. GEORGE. Yes; it is limited to them.

Mr. WHITE. It would not apply in the case of reduction of indebtedness by an individual?

Mr. GEORGE. No; it would have no application.

Mr. ROSIER. Mr. President, I should like to ask the Senator from Georgia a question. In section 113 an exemption is provided for income received from pensions for military service only. Is there in the bill a provision relating to income from other pensions, such as payments to retired teachers or payments to persons receiving other pension allowances?

Mr. GEORGE. I do not recall any provision in the bill applying to retirement payments to teachers. The provision now under consideration applies to pensions received by persons who engaged in active service in the armed forces. The amendment was offered by the Senator from Michigan.

Mr. VANDENBERG. Mr. President, the amendment applies solely to American residents who served in Allied armies in World War No. 1, and who now are living in the United States, and are receiving disability allowances from Canada or Great Britain. Pensions payments received by such persons are now to be deducted only in the same fashion and on the same basis as in the case of similar payments received by persons who served in branches of the armed services of the United States.

Mr. ROSIER. Of course, various industries and various States have pension systems.

Mr. VANDENBERG. The proposed amendment has nothing to do with any payments except those coming from abroad as pensions.

Mr. GEORGE. Pensions paid by a foreign government to a man injured while in the armed service.

The PRESIDING OFFICER. The question is on agreeing to the amendment on page 39, after line 8.

The amendment was agreed to.

The next amendment was, on page 40, after line 14, to insert:

(b) Railroad corporations—discharge of indebtedness in certain judicial proceedings: Section 22 (b) (relating to exclusions from gross income) is amended by inserting at the end thereof the following new paragraph:

"(10) Income from discharge of indebtedness of a railroad corporation: The amount of any income attributable to the discharge, within the taxable year, of any indebtedness of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, to the extent that such income is deemed to have been realized by reason of a modification in or cancellation in whole or in part of such indebtedness pursuant to an order of a court in a receivership proceeding or in a proceeding under section 77 of the National Bankruptcy Act, as amended. In such case the amount of any income of the taxpayer attributable to any unamortized premium (computed as of the 1st day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be included in gross income and the amount of the deduction attributable to any unamortized discount (computed as of the 1st day of the taxable year in which such discharge occurred) with respect to such indebtedness shall not be allowed as a deduction. Paragraph (9) shall not apply with respect to any discharge of indebtedness to which this paragraph applies. This paragraph shall not apply to any discharge occurring in a taxable year beginning after December 31, 1945."

(c) Taxable years to which amendment applicable: The amendment made by subsection (b) shall be applicable to taxable years beginning after December 31, 1939.

Mr. VANDENBERG. Mr. President, I simply wish to observe in passing that this relief is extended exclusively to railroad corporations. It is generally agreed in the Finance Committee, and, I think, in the staff of the Treasury Department, that similar relief is justly and legitimately due to other corporations generally. It simply has been a physical impossibility, according to the Treasury, to develop the total text to cover the situation as a whole in time for consideration in the pending bill. I should like, however, to make it plain that there is general agreement that the relief should be universally extended and will be univer-

sally extended at the first available opportunity.

The PRESIDING OFFICER. The question is on agreeing to the amendment which has been stated.

The amendment was agreed to.

The next amendment was, on page 42, at the beginning of line 2, to strike out "(10)" and insert "(11)."

The amendment was agreed to.

The next amendment was, on page 42, at the end of line 18, to strike out "(10)" and insert "(11)."

The amendment was agreed to.

The next amendment was, on page 43, at the beginning of line 6, to strike out "(11)" and insert "(12)."

The amendment was agreed to.

The next amendment was, on page 46, after line 5, to strike out:

(12) Additional allowance for military and naval personnel: So much of the amount received during the present war by an individual in the military or naval forces of the United States as salary or compensation in any form from the United States for active service in such forces, as does not exceed \$250 in the case of a single person and \$300 in the case of a married person.

And in lieu thereof to insert:

(13) Additional allowance for military and naval personnel: So much of the amount received, before the termination of the present war as proclaimed by the President, by personnel below the grade of commissioned officer in the military or naval forces of the United States as salary or compensation in any form from the United States for active service in such forces during such war, as does not exceed \$250 in the case of a single person and \$300 in the case of a married person or head of a family. The determination, for the purposes of this paragraph, of the taxpayer's status in the armed forces and his family status shall be made as of the end of the taxable year.

The amendment was agreed to.

The next amendment was, on page 48, line 14, after the numeral "31", to strike out "1940" and insert "1938."

The amendment was agreed to.

The next amendment was, on page 48, after line 14, to insert:

Sec. 119. Last-in first-out inventory.

Section 22 (d) (relating to the use of the elective inventory method) is amended by adding at the end thereof the following new paragraph:

"(6) Involuntary liquidation and replacement of inventory:

"(A) Adjustment of Net Income and Resulting Tax: If, for any taxable year beginning after December 31, 1941, and prior to the termination of the present war as proclaimed by the President, the closing inventory of a taxpayer inventorying goods under the method provided in this subsection reflects a decrease from the opening inventory of such goods for such year, and if, at the time of the filing of the taxpayer's income-tax return for such year, the taxpayer elects to have the provisions of this paragraph apply and so notifies the Commissioner, and if, at the time of such election, it is established to the satisfaction of the Commissioner, in accordance with such regulations as the Commissioner may prescribe with the approval of the Secretary, that such decrease is attributable to the involuntary liquidation of such inventory as defined in subparagraph (B), and if the closing inventory of a subsequent taxable year, ending not more than 3 years after the termination of the present war as proclaimed by the President, reflects a replacement, in whole or in part, of

the goods so previously liquidated, the net income of the taxpayer otherwise determined for the year of such involuntary liquidation shall be adjusted as follows:

"(i) Increased by an amount equal to the excess, if any, of the aggregate cost of such goods reflected in the opening inventory of the year of involuntary liquidation over the aggregate replacement cost; or

"(ii) Decreased by an amount equal to the excess, if any, of the aggregate replacement cost of such goods over the aggregate cost thereof reflected in the opening inventory of the year of the involuntary liquidation.

The taxes imposed by this chapter and by subchapter E of chapter 2 for the year of such liquidation and for all taxable years intervening between such year and the year of replacement shall be redetermined, giving effect to such adjustments. Any increase in such taxes resulting from such adjustments shall be assessed and collected as a deficiency, and any overpayment so resulting shall be credited or refunded to the taxpayer without interest.

"(B) Definition of Involuntary Liquidation: The term 'involuntary liquidation,' as used in this paragraph, means the sale or other disposition of goods inventoried under the method described in this subsection, either voluntary or involuntary, coupled with a failure on the part of the taxpayer to purchase, manufacture, or otherwise produce and have on hand at the close of the taxable year in which such sale or other disposition occurred such goods as would, if on hand at the close of such taxable year, be subject to the application of the provisions of this subsection, if such failure on the part of the taxpayer is due, directly and exclusively, (i) to enemy capture or control of sources of limited foreign supply; (ii) to shipping or other transportation shortages; (iii) to material shortages resulting from priorities or allocations; (iv) to labor shortages; or (v) to other prevailing war conditions beyond the control of the taxpayer.

"(C) Replacements: If, in the case of any taxpayer subject to the provisions of subparagraph (A), the closing inventory of the taxpayer for a taxable year, subsequent to the year of involuntary liquidation but prior to the complete replacement of the goods so liquidated, reflects an increase over the opening inventory of such goods for the taxable year, the goods reflecting such increase shall be considered, in the order of their acquisition, as having been acquired in replacement of the goods most recently liquidated (whether or not in a year of involuntary liquidation) and not previously replaced, and if the liquidation was an involuntary liquidation shall be included in the inventory of the taxpayer for the year of replacement at the inventory cost basis of the goods replaced.

"(D) Election Irrevocable: An election by the taxpayer to have the provisions of this paragraph apply, once made, shall be irrevocable and shall be binding for the year of the involuntary liquidation and for all determinations for subsequent taxable years insofar as they are related to the year of liquidation.

"(E) Adjustment in certain cases: If the adjustments specified in subparagraph (A) are, with respect to any taxable year, prevented, on the date of the filing of the income tax return of the taxpayer for the year of the replacement, or within 3 years from such date, by any provision or rule of law (other than this subparagraph and other than section 3761, relating to compromises), such adjustments shall nevertheless be made if, in respect of the taxable year for which the adjustment is sought, a notice of deficiency is mailed or a claim for refund is filed, as the case may be, within 3 years after the date of the filing of the income-tax return for the year of replacement. If, at the time of the mailing of such notice of deficiency or the

filing of such claim for refund, the adjustment is so prevented, then the amount of the adjustment authorized by this paragraph shall be limited to the increase or decrease of the tax imposed by this chapter and subchapter E of chapter 2 previously determined for such taxable year which results solely from the effect of subparagraph (A), and such amount shall be assessed and collected, or credited or refunded, in the same manner as if it were a deficiency or an overpayment, as the case may be, for such taxable year and as if, on the date of the filing of the income-tax return for the year of the replacement, 3 years remain before the expiration of the periods of limitation upon assessment or the filing of claim for refund for the taxable year. The tax previously determined shall be ascertained in accordance with section 734 (d). The amount to be assessed and collected under this paragraph in the same manner as if it were a deficiency or to be credited or refunded in the same manner as if it were an overpayment shall not be diminished by any credit or set-off based upon any item, inclusion, deduction, credit, exemption, gain, or loss, other than one resulting from the effect of subparagraph (A). Such amount, if paid, shall not be recovered by a claim or suit for refund, or suit for erroneous refund based upon any item, inclusion, deduction, credit, exemption, gain, or loss, other than one resulting from the effect of subparagraph (A)."

The amendment was agreed to.

The next amendment was, on page 55, line 6, after the word "support" and the period, to strike out "Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument, shall not be considered periodic payments for the purposes of this subsection; an installment payment shall be considered a periodic payment for the purposes of this subsection if the amount thereof is 10 percent or more of such principal sum or if such principal sum is required, by the terms of the decree or instrument, to be paid within a period ending not more than 10 years from the date of such decree or instrument" and insert "Installment payments discharging a part of an obligation the principal sum of which is, in terms of money or property, specified in the decree or instrument shall not be considered periodic payments for the purposes of this subsection; except that an installment payment shall be considered a periodic payment for the purposes of this subsection if such principal sum, by the terms of the decree or instrument, may be or is to be paid within a period ending more than 10 years from the date of such decree or instrument, but only to the extent that such installment payment for the taxable year of the wife (or if more than one such installment payment for such taxable year is received during such taxable year, the aggregate of such installment payments) does not exceed 10 percent of such principal sum. For the purposes of the preceding sentence, the portion of a payment of the principal sum which is allocable to a period after the taxable year of the wife in which it is received shall be considered an installment payment for the taxable year in which it is received."

The amendment was agreed to.

The next amendment was, on page 58, line 8, after the word "by", to strike out

"inserting before the semicolon at the end thereof a period and the following: 'This paragraph'" and insert "striking out the heading and inserting in lieu thereof

- (2) Annuities, etc.
- (A) In general."

And by inserting before the semicolon at the end of such paragraph (A) a period and the following: "This subparagraph."

The amendment was agreed to.

The next amendment was, on page 59, line 4, after "Supplement T", to strike out: "Section 401 (a) (2) (relating to the definition of 'dependent' for the purposes of Supplement T) is amended by inserting at the end thereof the following: 'A payment to a wife which is includible under section 22 (k) or section 171 in the gross income of such wife shall not be considered a payment by her husband for the support of any dependent'", and insert "For credit for dependents in case of optional tax, see amendment made by section 104 of this act."

The amendment was agreed to.

The next amendment was, on page 59, line 17, after "(A)", to strike out "171, and" and insert "and 171, and the last sentence of section 401."

The amendment was agreed to.

The next amendment was, on page 62, line 11, after "Section 24 (a)", to strike out "(relating to items not deductible)" is amended by inserting before the period at the end thereof, and insert "(5) (relating to items not deductible)" is amended by inserting after "this chapter."

The amendment was agreed to.

The next amendment was, on page 62, after line 18, to strike out:

(c) Fees and administration expenses: Section 162 (relating to net income of estates and trusts) is amended by inserting at the end thereof the following new subsection:

"(e) Amounts allowable under section 812 (b) as a deduction in computing the net estate of a decedent shall not be allowed as a deduction under section 23 (a) (2) in computing the net income of the estate unless there is filed, within the time and in the manner and form prescribed by the Commissioner, a statement that the items have not been claimed or allowed as deductions under section 812 (b) and a waiver of the right to have such items allowed at any time as deductions under section 812 (b)."

The amendment was agreed to.

The next amendment was, on page 63, at the beginning of line 7, to strike out "(d)" and insert "(c)."

The amendment was agreed to.

The next amendment was, on page 63, at the beginning of line 14, to strike out "(e)" and insert "(d)."

The amendment was agreed to.

The next amendment was, on page 63, at the beginning of line 18, to strike out "(f)" and insert "(e)."

The amendment was agreed to.

The next amendment was, at the top of page 64, to insert:

Sec. 122. Deduction allowable to purchasers for State and local retail sales taxes.

Section 23 (c) (relating to deduction for taxes) is amended by inserting at the end thereof the following new paragraph:

"(3) Retail sales tax: In the case of a tax imposed by any State, Territory, District, or

possession of the United States, or any political subdivision thereof, upon persons engaged in selling tangible personal property at retail, which is measured by the gross sales price or the gross receipts from the sale or which is a stated sum per unit of such property sold, or upon persons engaged in furnishing services at retail, which is measured by the gross receipts for furnishing such services, if the amount of such tax is separately stated, then to the extent that the amount so stated is paid by the purchaser (otherwise than in connection with the purchaser's trade or business) to such person such amount shall be allowed as a deduction in computing the net income of such purchaser as if such amount constituted a tax imposed upon and paid by such purchaser."

The amendment was agreed to.

The next amendment was, on page 64, after line 21, to insert:

Sec. 123. Deduction for stock and bond losses on securities in affiliated corporations.

(a) Stock losses:

(1) In general: Section 23 (g) (relating to capital losses) is amended by inserting at the end thereof the following:

"(4) Stock in affiliated corporation: For the purposes of paragraph (2) stock in a corporation affiliated with the taxpayer shall not be deemed a capital asset. For the purposes of this paragraph a corporation shall be deemed to be affiliated with the taxpayer only if:

"(A) At least 95 percent of each class of its stock is owned directly by the taxpayer; and

"(B) More than 90 percent of the aggregate of its gross incomes for all taxable years has been from sources other than royalties, rents, dividends, interest, annuities, or gains from sales or exchanges of stocks and securities; and

"(C) The taxpayer is a domestic corporation."

(2) Technical amendment: Section 23 (g) (3) is amended by inserting before "subsection" the following: "paragraph (2) of."

(b) Bond, etc., losses: For losses on bonds, etc., of affiliated corporations, see amendment made to section 23 (k) by section 124 of this act.

The amendment was agreed to.

The next amendment was, on page 67, at the beginning of line 2, to insert "paragraphs (1), (2), and (4) of."

The next amendment was, on page 67, line 13, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 67, after line 17, to insert:

(5) Securities of affiliated corporations: Bonds, debentures, notes or certificates, or other evidences of indebtedness issued with interest coupons or in registered form by any corporation affiliated with the taxpayer shall not be deemed capital assets for the purposes of paragraph (2) and paragraph (1) shall apply with respect to such debt except that no such deduction shall be allowed under such paragraph with respect to any such debt which is recoverable only in part. For the purposes of this paragraph a corporation shall be deemed to be affiliated with the taxpayer only if:

"(A) At least 95 percent of each class of its stock is owned directly by the taxpayer; and

"(B) More than 90 percent of the aggregate of its gross incomes for all taxable years has been from sources other than royalties, rents, dividends, interest or annuities or gains from sales or exchanges of stock and securities; and

"(C) The taxpayer is a domestic corporation."

The amendment was agreed to.

The next amendment was, on page 69, line 1, after the word "for", to strike out "paragraph" and insert "clause."

The next amendment was, on page 69, line 6, after the word "ending", to strike out "before the end of the sixth month after" and insert "at the expiration of 6 months after the date on which."

The amendment was agreed to.

The next amendment was, on page 69, line 15, after the numeral "31", to strike out "1941" and insert "1942; the amendment inserting section 23 (k) (5) and amendments related thereto shall be applicable only with respect to taxable years beginning after December 31, 1941."

The amendment was agreed to.

The next amendment was, on page 69, line 23, to change the figure "150" to "171."

The amendment was agreed to.

The next amendment was, at the top of page 70, to insert:

Sec. 125. Corporate contributions to United States, etc., or for charitable use outside United States deductible.

The first sentence of section 23 (q) (relating to allowance of corporate charitable contributions) is amended to read as follows: "In the case of a corporation, contributions or gifts payment of which is made within the taxable year to or for the use of:

"(1) The United States, any State, Territory, or any political subdivision thereof or the District of Columbia, or any possession of the United States, for exclusively public purposes; or

"(2) A corporation, trust, or community chest, fund, or foundation, created or organized in the United States or in any possession thereof or under the law of the United States, or of any State or Territory, or of the District of Columbia, or of any possession of the United States, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes or for the prevention of cruelty to children, no part of the net earnings of which inures to the benefit of any private shareholder or individual, and no substantial part of the activities of which is carrying on propaganda, or otherwise attempting, to influence legislation; to an amount which does not exceed 5 percent of the taxpayer's net income as computed without the benefits of this subsection."

The amendment was agreed to.

The next amendment was, on page 75, line 10, after the word "include", to insert "any such obligation which constitutes stock in trade of the taxpayer or any such obligation of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year, or."

The amendment was agreed to.

The next amendment was, on page 77, line 1, after "169 (c)", to insert "(2)."

The amendment was agreed to.

The next amendment was, on page 79, after line 8, to insert:

Sec. 127. Deduction for medical, dental, etc., expenses.

(a) Allowance of deduction: Section 23 (relating to deductions from gross income) is amended by inserting at the end thereof the following new subsection:

"(x) Medical, dental, etc., expenses: Except as limited under paragraph (1) or (2) expenses paid during the taxable year, not compensated for by insurance or otherwise, for medical care of the taxpayer, his spouse, or a dependent specified in section 25 (b) (2) (A) of the taxpayer. The term 'medical care,'

as used in this subsection, shall include amounts paid for the diagnosis, cure, mitigation, treatment, or prevention of disease, or for the purpose of affecting any structure or function of the body (including amounts paid for accident or health insurance).

"(1) A husband and wife who file a joint return may deduct only such expenses as exceed 5 percent of the aggregate net income of such husband and wife, computed without the benefit of this subsection, and the maximum deduction for the taxable year shall be not in excess of \$2,500 in the case of such husband and wife.

"(2) An individual who files a separate return may deduct only such expenses as exceed 5 percent of the net income of the taxpayer, computed without the benefit of this subsection, and the maximum deduction for the taxable year shall be not in excess of \$2,500 in the case of the head of a family, and not in excess of \$1,250 in the case of all other such individuals."

(b) Items not deductible: Section 24 (a) (relating to items not deductible) is amended by striking paragraph 1 and inserting in lieu thereof the following:

"(1) Personal, living, or family expenses, except extraordinary medical expenses deductible under section 23 (x)."

(c) Charitable deductions: Section 23 (o) (relating to deduction for charitable and other contributions) is amended by striking the period at the end of the next to the last sentence and by inserting in lieu thereof the following: "or of subsection (x)."

(d) Compensation from insurance: Section 22 (b) (5) (relating to exclusion from gross income of compensation for injuries or sickness) is amended by striking out "Amounts received" and inserting in lieu thereof "Except in the case of amounts attributable to (and not in excess of) deductions allowed under section 23 (x) in any prior taxable year, amounts received."

The amendment was agreed to.

The next amendment was on page 81, after line 3, to insert:

Sec. 128. Losses of mining corporations for 1938 and 1939.

(a) Deduction for mining losses: Section 23 (relating to deductions) is amended by inserting at the end thereof the following new subsection:

"(y) Mining losses in 1938 and 1939: For the first taxable year beginning in 1940, in the case of a corporation which derive substantially all its income from the production of minerals, as defined in section 735, the exhaustion of which gives rise to an allowance for depletion under section 23 (m), the sum of—

"(1) The excess of the deductions for a taxable year beginning in 1938, allowed by the Revenue Act of 1938, over the gross income for such year, and

"(2) The excess of the deductions for a taxable year beginning in 1939, allowed by this chapter as originally enacted, over the gross income for such year.

"In either case, the computations shall be made with the exceptions and limitations provided in section 122 (d) without regard to its amendment by the Revenue Act of 1942."

(b) Technical amendment: Section 122 (e) (relating to net operating loss) is amended by inserting before the period at the end thereof a comma and the following: "and, in the case of corporations described in section 23 (y), such terms do not include any taxable year beginning before January 1, 1940."

(c) Taxable years to which amendments applicable: The amendments made by this section shall be effective with respect to taxable years beginning after December 31, 1939.

The amendment was agreed to.

The next amendment was, on page 82, after line 8, to insert:

Sec. 129. Deduction of certain amounts paid to cooperative apartment corporation.

Section 23 (relating to deductions from gross income) is amended by inserting at the end thereof the following new subsection:

"(z) Amounts representing taxes and interest paid to cooperative apartment corporation:

"(1) In general: In the case of a tenant-stockholder (as defined in paragraph (2)), amounts, not otherwise deductible, paid or accrued to a cooperative apartment corporation within the taxable year, if such amounts represent that proportion of the real estate taxes on the apartment building and the land on which it is situated, allowable as deductions under subsection (c), paid or incurred by the corporation, or of the interest paid or incurred by the corporation on its indebtedness contracted in the acquisition, construction, alteration, rehabilitation, or maintenance of such apartment building or in the acquisition of the land on which the building is located, which the stock of the corporation owned by the tenant-stockholder is of the total outstanding stock of the corporation, including that held by the corporation.

"(2) Definitions: For the purposes of this subsection—

"(A) Cooperative Apartment Corporation.—The term 'cooperative apartment corporation' means a corporation—

"(i) Having one and only one class of stock outstanding.

"(ii) All of the stockholders of which are entitled, solely by reason of their ownership of stock in the corporation, to occupy for dwelling purposes apartments in a building owned or leased by such corporation, and who are not entitled, either conditionally or unconditionally, except upon a complete or partial liquidation of the corporation, to receive any distribution not out of earnings and profits of the corporation, and

"(iii) Eighty percent or more of the gross income of which for the taxable year in which the taxes and interest described in paragraph (1) are paid or incurred is derived from tenant-stockholders.

"(B) Tenant-stockholder: The term 'tenant-stockholder' means an individual who is a stockholder in a cooperative apartment corporation, and whose stock is fully paid-up in an amount not less than an amount shown to the satisfaction of the Commissioner as bearing a reasonable relationship to the portion of the value of the corporation's equity in the building and the land on which it is situated which is attributable to the apartment which such individual is entitled to occupy."

The amendment was agreed to.

The next amendment was, on page 84, line 18, after the word "semicolon", to strike out "and the word 'or' at the end of paragraph (5)", and on page 84, after line 20, to strike out:

(6) Any amount paid or accrued on indebtedness incurred or continued to purchase or carry a single premium or fully paid-up life insurance or endowment contract; or

And in lieu thereof to insert:

(6) Any amount paid or accrued on indebtedness incurred or continued to purchase a single premium life insurance or endowment contract. For the purposes of this paragraph, if substantially all the premiums on a life insurance or endowment contract are paid within a period of 4 years from the date on which such contract is purchased, such contract shall be considered a single premium life insurance or endowment contract; or.

Mr. VANDENBERG. Mr. President, let me inquire, in what way would this amendment change existing law?

Mr. BYRD. The present law allows a deduction for the full amount of interest paid, but under the proposed amendment, as I understand, the interest, if used for the purpose of purchasing a single life insurance policy, would not be deductible.

Mr. VANDENBERG. I am not clear that the Finance Committee settled that question conclusively. A very strong case was certainly presented to the committee against the removal of this deduction. I suggest that the amendment go over for the day.

Mr. BYRD. That will be satisfactory.

Mr. VANDENBERG. I suggest that all of section 130 go over.

The PRESIDING OFFICER (Mr. McFARLAND in the chair). Without objection, all of section 130 will go over. The clerk will state the next amendment of the committee.

The next amendment was, on page 85, line 16, before the word "carrying" to strike out the word "other."

The amendment was agreed to.

The next amendment was, on page 86, line 1, after the word "exemption", to insert "and credit for dependents."

The amendment was agreed to.

The next amendment was, on page 86, line 20, after the word "amended", to strike out "by striking out '\$750' and inserting in lieu thereof '\$500.'" and insert "to read as follows:"

Sec. 214. Credits against net income.

In the case of a nonresident alien individual the personal exemption allowed by section 25 (b) (1) of this chapter shall, except as hereinafter provided in the case of a resident of a contiguous country, be only \$500. In the case of a nonresident alien individual residing in a contiguous country who is married and living with husband or wife or who is the head of a family, the personal exemption shall be that specified in section 25 (b) if such contiguous country allows to citizens of the United States not residing in such country who are married and living with husband or wife and to citizens of the United States not residing in such country who are heads of families the same personal exemption as that allowed citizens of such country who are married and living with husband or wife or who are heads of families, as the case may be. The credit for dependents allowed by section 25 (b) (2) shall not be allowed in the case of a nonresident alien individual unless he is a resident of a contiguous country.

The amendment was agreed to.

The next amendment was, on page 87, after line 19, to insert:

(b) Credit for dependents: Section 25 (b) (2) (A) (relating to credit for dependents) is amended by striking out "\$400" and inserting in lieu thereof "\$300."

Mr. BYRD. I ask that this amendment go over. It comes under the request of the Senator from Wisconsin [Mr. LA FOLLETTE].

The PRESIDING OFFICER. Without objection, the amendment will be passed over, and the clerk will state the next amendment of the committee.

The next amendment was, on page 89, line 6, after the word "inserting," to strike

out "at the end thereof" and insert "after subparagraph (B)."

The amendment was agreed to.

The next amendment was, on page 89, line 13, before the word "times," to strike out "third" and insert "fourth."

The amendment was agreed to.

The next amendment was, on page 91, line 10, after the numeral "31", to strike out "1941" and insert "1939."

The amendment was agreed to.

The next amendment was, on page 91, after line 13, to insert:

Sec. 134. Credit for dividends paid on certain preferred stock.

Section 26 is amended by inserting at the end thereof the following new subsection:

"(h) Credit for dividends paid on certain preferred stock.

"(1) Amount of credit: In the case of a public utility, the amount of dividends paid during the taxable year on its preferred stock. The credit provided in this subsection shall be subtracted from the basic surtax credit provided in section 27.

"(2) Definitions: As used in this subsection and section 15 (a)—

"(A) Public utility: The term "public utility" means a corporation engaged in the furnishing of telephone service or in the sale of electric energy, gas, or water, if the rates for such furnishing or sale, as the case may be, have been established or approved by an agency or instrumentality of the United States or by a public utility or public service commission or other similar body of the District of Columbia or of any State or political subdivision thereof.

"(B) Preferred stock: The term "preferred stock" means stock issued prior to September 1, 1942, which on September 1, 1942 and during the whole of the taxable year was non-voting stock the dividends in respect of which were cumulative, limited to the same amount, and payable in preference to the payment of dividends on other stock."

Mr. BREWSTER. I ask that this amendment go over.

The PRESIDING OFFICER. Without objection, section 134 will be passed over. The next amendment of the committee will be stated.

The next amendment was, on page 98, line 17, after the word "amount," to strike out "which bears the same ratio to such net value as the estate tax bears to the amount of the net estate determined under section 812 (without deduction of the specific exemption provided in subsection (a) thereof) or section 861 (without deduction of the specific exemption provided in subsection (a) (4) thereof), whichever is applicable. For the purposes of this subparagraph, such net value shall in no case be considered greater than the amount of the net estate so determined" and insert "equal to the excess of the estate tax over the estate tax computed without including in the gross estate such net value."

The amendment was agreed to.

The next amendment was, on page 100, line 23, after the word "decendent", to insert "and the tax of the decedent shall be computed under such provisions for the taxable period of the decedent in which falls the date of his death"; on page 101, line 8, after the word "Code", to insert "or a corresponding provision of a prior revenue law"; in line 13, after the word "filed", to insert "and such assessment and collection may be made not-

withstanding any provision of the internal revenue laws or any rule of law which would otherwise prevent such assessment and collection" and a period; in line 20, after the word "period", to insert "(except the taxable period of the decedent in which falls the date of his death)"; and in line 23, after the word "consent", to insert "and credit or refund may be allowed or made notwithstanding any provision of the internal revenue laws or any rule of law which would otherwise prevent such credit or refund"; on page 102, line 4, after the word "Code", to insert "or a corresponding provision of a prior revenue law"; and in line 6, after the word "overpayment", to insert, "If the application of this subsection to the taxable period of the decedent in which falls the date of his death results in a deficiency for such taxable period, and if the income tax of the decedent for such period was deducted in computing the net estate of the decedent under chapter 3 of the Internal Revenue Code or under a corresponding title of a prior revenue law, and if at the time such deficiency is assessed credit or refund of any resulting overpayment in respect of the taxes imposed by such chapter 3 or corresponding title upon such net estate is prevented by any provision of the internal revenue laws or by any rule of law, then the amount of such deficiency which is assessed and collected shall be reduced by the amount of such resulting overpayment under such chapter 3 or corresponding title which would be credited or refunded if credit or refund thereof were not so prevented."

The amendment was agreed to.

The next amendment was, on page 107, after line 15, to insert:

Sec. 137. Declaration that return made under penalties for perjury in lieu of oath.

(a) Declaration on returns: So much of the first sentence of section 51 (relating to requirement of individual returns) as reads as follows: "The following individuals shall each make under oath a return stating" is amended to read as follows: "The following individuals shall each make a return, which shall contain or be verified by a written declaration that it is made under the penalties of perjury, stating."

(b) Penalty: Section 145 (relating to penalties) is amended by inserting after subsection (b) the following new subsection:

"(c) Any individual who willfully makes and subscribes a return which he does not believe to be true and correct as to every material matter, shall be guilty of a felony, and, upon conviction thereof, shall be subject to the penalties prescribed for perjury in section 125 of the Criminal Code."

(c) Clerical amendments: Section 145 (c) is amended by striking out "(c)" and inserting in lieu thereof "(d)" and section 145 (d) is amended by striking out "(d)" and inserting in lieu thereof "(e)."

The amendment was agreed to.

The next amendment was, on page 108, after line 12, to insert:

Sec. 138. Employers' contributions to voluntary employees' beneficiary associations.

(a) Exemption: Section 101 (16) of the Internal Revenue Code, and of the Revenue Acts of 1938, 1936, and 1934, and section 103 (16) of the Revenue Acts of 1932 and 1928, are amended to read as follows:

"(16) Voluntary employees' beneficiary associations providing for the payment of life,

sick, accident, or other benefits to the members of such association or their dependents, if (A) no part of their net earnings inures (other than through such payments) to the benefit of any private shareholder or individual, and (B) 85 percent or more of the income consists of amounts collected from members and amounts contributed to the association by the employer of the members for the sole purpose of making such payments and meeting expenses."

(b) Retroactive effect: For the purposes of the Internal Revenue Code and the Revenue Acts of 1928, 1932, 1934, 1936, and 1938, the amendments made to the Internal Revenue Code and those acts by subsection (a) of this section shall be effective as if they were a part of the Internal Revenue Code and such revenue acts on the respective dates of their enactment.

(c) Amendments inapplicable to employment taxes: Such amendments shall not apply to the employment taxes imposed by subchapters A and C of chapter 9 of the Internal Revenue Code, or the corresponding provisions of a prior law.

Mr. DAVIS. I ask that this amendment go over.

The PRESIDING OFFICER. Without objection, section 138 will be passed over. The clerk will state the next amendment of the committee.

The next amendment was, on page 110, after line 8, to strike out:

(a) Personal services: In the case of compensation received for personal services rendered by an individual in his individual capacity, or as a member of a partnership, covering a period of 36 calendar months or more from the beginning to the completion of such services, and not less than 80 percent of which is (a) paid only on or after completion of such services and (b) required to be included in gross income of such individual for any 1 taxable year, the tax attributable to such compensation shall not be greater than the aggregate of the taxes attributable to such compensation had it been received in equal portions in each of the months included in such period.

And to insert:

(a) Personal services: If at least 80 percent of the total compensation for personal services covering a period of 36 calendar months or more (from the beginning to the completion of such services) is received or accrued in 1 taxable year by an individual or a partnership, the tax attributable to any part thereof which is included in the gross income of any individual shall not be greater than the aggregate of the taxes attributable to such part had it been included in the gross income of such individual ratably over that part of the period which precedes the date of such receipt or accrual.

The amendment was agreed to.

The next amendment was, on page 111, line 21, after the words "attributable to" to strike out "such part of the gross income of the taxable year as is not taxable as a gain from the sale or exchange of a capital asset held for more than 15 months shall not be greater than the aggregate of the taxes attributable to such part had it been received ratably over the period of 36 calendar months ending with the close of the taxable year", and to insert "the part of such gross income of the taxable year which is not taxable as a gain from the sale or exchange of a capital asset held for more than 6 months shall not be greater than the aggregate of the taxes attributable to such part had it been received ratably

over that part of the period preceding the close of the taxable year but not more than 36 calendar months."

The amendment was agreed to.

The next amendment was, on page 112, after line 20, to strike out:

Sec. 129. Fiscal year taxpayers.

(a) Taxable period embracing years with different laws: The Internal Revenue Code is amended by inserting after section 15 the following new section:

"Sec. 16. Taxable years embracing calendar years with different laws.

"If a taxable year embraces portions of 2 calendar years, the tax shall be computed as provided in section 108. This section shall not apply to an insurance company subject to supplement G, a foreign personal holding company subject to supplement P, or a regulated investment company subject to supplement Q."

The amendment was agreed to.

The next amendment was, on page 113, after line 8, to strike out:

(b) Method of computing the tax: The Internal Revenue Code is amended by inserting after section 107 the following new section:

"Sec. 108. Taxable period embracing years with different laws.

"(a) General rule: If it is necessary to compute the tax for a period beginning in one calendar year (hereinafter in this section called 'first calendar year') and ending in the following calendar year (hereinafter in this section called 'second calendar year') and the law applicable to a taxable year beginning in the first calendar year (hereinafter in this section called 'first taxable year') is different from the law applicable (without regard to this section) to a taxable year beginning in the second calendar year (hereinafter in this section called 'second taxable year'), the tax under this chapter for such period shall be the sum of:

"(1) That portion of the tax for the entire period, determined under the law applicable to the first taxable year, which the portion of such period falling within such first calendar year is of the entire period; and

"(2) That portion of the tax for the entire period, determined under the law applicable to the second taxable year (except as provided in subsection (b)), which the portion of such period falling within the second calendar year is of the entire period.

"(b) Exceptions:

"(1) For the purpose of the computations required under subsection (a) (2) for a period beginning in the calendar year 1941 and ending in the calendar year 1942, the amendments made to the Internal Revenue Code by sections 110, 113, 117, and so much of section 119 as adds the last sentence to section 23 (k) (1) of this chapter and as adds paragraph (4) to section 23 (k) of this chapter; sections 120 and 122, and section 124 unless applicable to the first taxable year in accordance with the terms of such amendment; sections 126, 127, 130, 131, 133, 136, 137, 138, 141, 143, 144, and 149 of the Revenue Act of 1942 shall not be deemed to be applicable.

"(2) For the purpose of the computations required under subsection (a) (1) and (2), the amendments made by section 139 of the Revenue Act of 1942 shall be deemed applicable to taxable years beginning in 1941 and ending in 1942.

"(c) Net operating loss carry-over and unused excess profits credit: The net operating loss under section 122, and the unused excess profits credit under section 710 (c) (1), shall, for the purposes of subsection (a), be the sum of: (1) The same proportion of a net operating loss and an unused excess profits credit for the entire period, deter-

mined under the law applicable to the first calendar year, which the portion of such period falling within such calendar year is of the entire period; and (2) the same proportion of a net operating loss and an unused excess profits credit for the entire period, determined under the law applicable to the second calendar year, which the portion of such period falling within such calendar year is of the entire period."

(c) Taxes to which this section not applicable:

(1) Section 102 is amended by inserting at the end thereof the following new subsection:

"(g) Section 16 not applicable: Section 16 shall not apply in the computation of the tax imposed by this section."

(2) Section 505 is amended by inserting at the end thereof the following new subsection:

"(f) Section 16 not applicable: Section 16 shall not apply in the computation of the tax imposed by this subchapter."

(d) Excess-profits tax: Section 729 (a) (relating to laws made applicable) is amended by inserting at the end thereof the following new sentence: "In the application of section 108 to the computation of the tax imposed by this subchapter, in addition to the amendments made inapplicable for the purposes of the computations under subsection (a) (2) of such section, the amendment made by section 206 of the Revenue Act of 1942 shall not be deemed to be applicable."

Sec. 141. Certain fiscal year taxpayers.

(a) Computation of tax for year ending in 1942: The Internal Revenue Code is amended by inserting after section 107 the following new section:

"Sec. 108. Taxable years beginning in 1941 and ending after June 30, 1942.

"(a) General Rule: In the case of a taxable year beginning in 1941 and ending after June 30, 1942, the tax imposed by sections 11, 12, 13, 14, and 15 shall be—

"(1) Corporations: In the case of a corporation an amount equal to the sum of—

"(A) that portion of a tentative tax, computed without regard to section 141 of the Revenue Act of 1942, which the number of days in such taxable year before July 1, 1942, bears to the total number of days in such taxable year, plus

"(B) that portion of a tentative tax, computed as if the amendments made by sections 105 (a), (b), (c), (d), and (e) (1) of the Revenue Act of 1942 were applicable to such taxable year, which the number of days in such taxable year after June 30, 1942, bears to the total number of days in such taxable year.

"(2) Taxpayers other than corporations: In the case of a taxpayer other than a corporation, an amount equal to the sum of—

"(A) that portion of a tentative tax, computed without regard to section 141 of the Revenue Act of 1942, which the number of days in such taxable year before July 1, 1942, bears to the total number of days in such taxable year, plus

"(B) that portion of a tentative tax, computed as if the amendments made by sections 102 and 103 of the Revenue Act of 1942 were applicable to such taxable year, which the number of days in such taxable year after June 30, 1942, bears to the total number of days in such taxable year.

"(b) Special classes of taxpayers: This section shall not apply to an insurance company subject to supplement G, an investment company subject to supplement Q, or a Western Hemisphere Trade Corporation, as defined in section 109."

(b) Taxable years to which amendment applicable: The amendment made by this section shall be applicable to taxable years beginning in 1941 and ending after June 30, 1942.

The amendment was agreed to.

The next amendment was, on page 118, after line 11, to insert:

Sec. 142. Western Hemisphere trade corporations.

The Internal Revenue Code is amended by inserting after section 108 the following new section:

"Sec. 109. Western Hemisphere trade corporations.

"For the purposes of this chapter, the term 'western hemisphere trade corporation' means a domestic corporation all of whose business is done in any country or countries in North, Central, or South America, or in the West Indies, or in Newfoundland and which satisfies the following conditions:

"(a) If 95 percent or more of the gross income of such domestic corporation for the 3-year period immediately preceding the close of the taxable year (or for such part of such period during which the corporation was in existence) was derived from sources other than sources within the United States; and

"(b) If 90 percent or more of its gross income for such period or such part thereof was derived from the active conduct of a trade or business."

The amendment was agreed to.

The next amendment was, on page 119, after line 5, to insert:

Sec. 143. Nonrecognition of loss and determination of basis in case of certain railroad reorganizations.

(a) Nonrecognition of loss in railroad reorganizations: Section 112 (b) (relating to the recognition of gain or loss upon the sale or exchange of property) is amended by inserting at the end thereof the following new paragraph:

"(9) Loss not recognized on certain railroad-reorganizations: No loss shall be recognized if property of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, is transferred, after December 31, 1939, in pursuance of an order of the court having jurisdiction of such corporation—

"(A) in a receivership proceeding, or

"(B) in a proceeding under section 77 of the National Bankruptcy Act, as amended, to a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding. The term 'reorganization,' as used in this paragraph, shall not be limited by the definition of such term in subsection (g)."

(b) Basis of property acquired by certain railroad corporations: Section 113 (a) (relating to the basis of the property) is amended by inserting at the end thereof the following new paragraph:

"(20) Property acquired by railroad corporation: If the property of a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, was acquired after December 31, 1939, in pursuance of an order of the court having jurisdiction of such corporation—

"(A) in a receivership proceeding, or

"(B) in a proceeding under section 77 of the National Bankruptcy Act, as amended, and the acquiring corporation is a railroad corporation, as defined in section 77m of the National Bankruptcy Act, as amended, organized or made use of to effectuate a plan or reorganization approved by the court in such proceeding, the basis shall be the same as it would be in the hands of the railroad corporation whose property was so acquired. The term 'reorganization,' as used in this paragraph, shall not be limited by the definition of such term in section 112 (g)."

(c) Basis of property acquired pursuant to railroad reorganization under section 77b of

the National Bankruptcy Act, as amended: Section 113 (a) (relating to the basis of the property) is amended by inserting at the end thereof the following new paragraph:

"(21) Property acquired by street, suburban, or interurban electric railway corporation: If the property of any street, suburban, or interurban electric railway corporation engaged as a common carrier in the transportation of persons or property in interstate commerce was acquired after December 31, 1934, in pursuance of an order of the court having jurisdiction of such corporation in a proceeding under section 77b of the National Bankruptcy Act, as amended, and the acquiring corporation is a street, suburban, or interurban electric railway engaged as a common carrier in the transportation of persons or property in interstate commerce, organized or made use of to effectuate a plan of reorganization approved by the court in such proceeding, then, notwithstanding the provisions of section 270 of chapter X of the National Bankruptcy Act, as amended, the basis, for any taxable year beginning after December 31, 1939, shall be the same as it would be in the hands of the corporation whose property was so acquired. The term 'reorganization,' as used in this paragraph, shall not be limited by the definition of such term in section 112 (g)."

(d) Taxable years to which applicable: The amendments made by this section shall be applicable to taxable years beginning after December 31, 1939.

The amendment was agreed to.

Mr. VANDENBERG. Mr. President, I wish to make the same statement regarding this section that I made regarding a previous one. Here again relief is extended only to railroad reorganizations, although it is generally acknowledged in the Committee on Finance and in the Treasury staff that the relief should be universally extended to all corporations in kindred difficulty. The only reason why the provision is not included in the bill is that there was not time to perfect it, according to the Treasury statement. I wish to add, as I did before, that this provision certainly will have to be corrected in the near future, in the interest of simple justice.

The PRESIDING OFFICER. The clerk will state the next amendment of the committee.

The next amendment was, on page 122, after line 9, to insert the following:

Sec. 144. Liquidation of personal holding companies in December 1942.

(a) Election as to recognition of gain on liquidation: Section 112 (b) (relating to nonrecognition of gain or loss) is amended by inserting at the end thereof the following new paragraph:

"(10) Election as to recognition of gain in certain corporate liquidations:

"(A) General rule: In the case of property distributed in complete liquidation of a domestic corporation which is a personal holding company, as defined in section 501, if—

"(i) The liquidation is made in pursuance of a plan of liquidation adopted after the date of the enactment of this act, whether the taxable year of the corporation began on, before, or after January 1, 1942; and

"(ii) The distribution is in complete cancellation or redemption of all the stock, and the transfer of all the property under the liquidation occurs within the month of December 1942—

then in the case of each qualified electing shareholder (as defined in subparagraph (C)) gain upon the shares owned by him at the time of the adoption of the plan of liquidation shall be recognized only to the extent provided in subparagraphs (E) and (F).

(B) Excluded corporation: The term 'excluded corporation' means a corporation which at any time between September 1, 1942, and the date of the adoption of the plan of liquidation, both dates inclusive, was the owner of stock possessing 50 percent or more of the total combined voting power of all classes of stock entitled to vote on the adoption of such plan.

(C) Qualified electing shareholders: The term 'qualified electing shareholder' means a shareholder (other than an excluded corporation) of any class of stock (whether or not entitled to vote on the adoption of the plan of liquidation) who is a shareholder at the time of the adoption of such plan, and whose written election to have the benefits of subparagraph (A) has been made and filed in accordance with subparagraph (D), but—

"(i) In the case of a shareholder other than a corporation, only if written elections have been so filed by shareholders (other than corporations) who at the time of the adoption of the plan of liquidation are owners of stock possessing at least 80 percent of the total combined voting power (exclusive of voting power possessed by stock owned by corporations) of all classes of stock entitled to vote on the adoption of such plan of liquidation; or

"(ii) In the case of a shareholder which is a corporation, only if written elections have been so filed by corporate shareholders (other than an excluded corporation) which at the time of the adoption of such plan of liquidation are owners of stock possessing at least 80 percent of the total combined voting power (exclusive of voting power possessed by stock owned by an excluded corporation and by shareholders who are not corporations) of all classes of stock entitled to vote on the adoption of such plan of liquidation.

(D) Making and filing of elections: The written elections referred to in subparagraph (C) must be made and filed in such manner as to be not in contravention of regulations prescribed by the Commissioner with the approval of the Secretary. The filing must be within 30 days after the adoption of the plan of liquidation, and may be by the liquidating corporation or by the shareholder.

(E) Noncorporate shareholders: In the case of a qualified electing shareholder other than a corporation—

"(i) There shall be recognized, and taxed as a dividend, so much of the gain as is not in excess of his ratable share of the earnings and profits of the corporation accumulated after February 28, 1913, such earnings and profits to be determined as of December 31, 1942, but without diminution by reason of distributions made during the month of December 1942; and

"(ii) There shall be recognized, and taxed as short-term or long-term capital gain, as the case may be, so much of the remainder of the gain as is not in excess of the amount by which the value of that portion of the assets received by him which consists of money, or of stock or securities acquired by the corporation after September 1, 1942, exceeds his ratable share of such earnings and profits.

(F) Corporate shareholders: In the case of a qualified electing shareholder which is a corporation the gain shall be recognized only to the extent of the greater of the two following—

"(i) The portion of the assets received by it which consists of money, or of stock or securities acquired by the liquidating corporation after September 1, 1942; or

"(ii) Its ratable share of the earnings and profits of the liquidating corporation accumulated after February 28, 1913, such earnings and profits to be determined as of December

31, 1942, but without diminution by reason of distributions made during the month of December 1942."

(b) Basis of property acquired: Section 113 (a) (relating to basis) is amended by inserting at the end thereof the following new paragraph:

"(22) Property received in certain corporate liquidations: If the property was acquired by a shareholder in the liquidation of a corporation in cancellation or redemption of stock with respect to which gain was realized, but with respect to which, as the result of an election made by him under paragraph (10) of section 112 (b), the extent to which gain was recognized was determined under such paragraph, then the basis shall be the same as the basis of such stock canceled or redeemed in the liquidation, decreased in the amount of any money received by him, and increased in the amount of gain recognized to him."

(c) Technical amendment: Section 113 (a) (6) (relating to basis in case of tax-free exchanges) is amended by striking out "or 18" and inserting in lieu thereof "18, or 22."

The amendment was agreed to.

The next amendment was, on page 128, after line 12, to insert:

Sec. 146. Basis of property in case of optional value for estate tax purposes.

(a) Basis of property: Section 113 (a) (5) (relating to basis of property transmitted at death) is amended by adding at the end thereof the following new sentence: "In the case of an election made by the executor under section 811 (j), the time of acquisition of the property shall, for the purpose of this paragraph, be the applicable valuation date of the property prescribed by such section in determining the value of the gross estate."

(b) Property to which amendment applicable: The amendment made by this section shall be applicable only with respect to property includible in the gross estate of a decedent dying after the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on page 131, line 18, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 131, after line 20, to strike out:

(a) Termination of exclusion from gross income of earned income from sources without United States: Section 116 (relating to exclusions from gross income) is amended by striking out subsection (a) (relating to earned income from sources without the United States).

The amendment was agreed to.

The next amendment was, on page 132, after line 2, to insert:

(a) Exclusion of earned income from foreign sources: Section 116 (a) (relating to earned income from sources without the United States) is amended to read as follows:

"(a) Earned income from sources without the United States:

"(1) Foreign resident for entire taxable year: In the case of an individual citizen of the United States, who establishes to the satisfaction of the Commissioner that he is a bona fide resident of a foreign country or countries during the entire taxable year, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof) if such amounts would constitute earned income as defined in section 25 (a) if received from sources within the United States; but such individual shall not be allowed a deduction from his gross income any deductions properly allowable to or chargeable against

amounts excluded from gross income under this subsection.

"(2) Taxable year of change of residence to United States: In the case of an individual citizen of the United States, who has been a bona fide resident of a foreign country or countries for a period of at least 2 years before the date on which he changes his residence from such country to the United States, amounts received from sources without the United States (except amounts paid by the United States or any agency thereof), which are attributable to that part of such period of foreign residence before such date, if such amounts would constitute earned income as defined in section 25 (a) if received from sources within the United States; but such individual shall not be allowed a deduction from his gross income any deductions properly allocable to or chargeable against amounts excluded from gross income under this subsection."

(b) Taxable years to which amendment applicable: The amendment made by subsection (a) shall be applicable with respect to taxable years beginning after December 31, 1942, and so much of the amendment made by subsection (a) as inserts paragraph (2) in section 116 (a) shall also be applicable to taxable years beginning in 1942.

The amendment was agreed to.

The next amendment was, on page 133, after line 18, to strike out:

(b) Income received from United States: Section 251 (b) (relating to income from sources within possessions of the United States) is amended to read as follows:

"(b) Amounts received in United States or from Government of United States: Notwithstanding the provisions of subsection (a) there shall be included in gross income (1) all amounts received by such citizens or corporations within the United States, whether derived from sources within or without the United States, and (2) all amounts paid by the United States or by any agency thereof as compensation for labor or personal services, or under any contract with the United States or any agency thereof, except that any corporation receiving such amounts may elect, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, not to be taxed under this section and to be treated as an includible corporation under section 141 (e) (4)."

(c) Definition of possession: Section 251 (d) (relating to definition of possession) is amended to read as follows:

"(d) Definition: As used in this section the term 'possession of the United States' includes only the Commonwealth of the Philippines and Puerto Rico."

The amendment was agreed to.

The next amendment was, on page 136, line 19, after the word "therein", to insert "and inserting in lieu thereof."

The amendment was agreed to.

The next amendment was, in the same line, to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 138, line 9, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 11, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 17, to strike out "362, 363."

The amendment was agreed to.

The next amendment was, on page 140, line 23, after the word "Banks", to strike out "And Insurance Companies."

The amendment was agreed to.

The next amendment was, on page 141, line 1, after the word "Banks", to strike out "And Insurance Companies." For the purpose of this chapter, in the cases of (1) a life insurance company, as defined in section 201 (a), and (2)", and to insert "For the purposes of this chapter, in the case of."

The amendment was agreed to.

The next amendment was, on page 142, line 1, before the word "months", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 3, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 9, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 11, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 143, line 10, after the word "than", to strike out "15" and insert "6"; in line 13, after the word "than", to strike out "15" and insert "6"; and in line 17, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 145, line 1, after the word "than", to strike out "15" and insert "6."

The amendment was agreed to.

Mr. DANAHER. Mr. President, before we leave that section may I ask the Senator from Virginia [Mr. BYRD], who is temporarily in charge of the bill, to point out to me wherein reference is made to the rate under the capital gains and losses section? My recollection is that the rate was made 25 percent.

Mr. BYRD. It is on page 138, line 23, I will say to the Senator, and page 139, line 10. The maximum on long term capital gains is 25 percent.

Mr. DANAHER. I thank the Senator. The PRESIDING OFFICER. The clerk will state the next committee amendment.

The next amendment was, on page 145, line 3, after the word "Property" to strike out "Improvements."

The amendment was agreed to.

The next amendment was, on page 145, after line 4 to strike out:

(a) Real property improvements treated as capital assets: Section 117 (a) (1) (relating to the definition of "capital assets"), is amended by striking out "or property, used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1)," and inserting in lieu thereof "or property (other than buildings and similar real property improvements), used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1)."

(b) Gains and losses from involuntary conversion and from the sale or exchange of certain depreciable property: Section 117 (relating to capital gains and losses) is amended by inserting at the end thereof the following new subsection:

"(j) Gains and losses from involuntary conversion and from the sale or exchange of certain depreciable property:

"(1) Definition of depreciable property: For the purposes of this subsection, the term 'depreciable property' means property

(other than buildings and similar real property improvements), used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1), held for more than 15 months.

The amendment was agreed to.

The next amendment was, on page 146, after line 5, to insert:

(a) Real property not treated as capital asset: Section 117 (a) (1) (relating to the definition of "capital assets") is amended by inserting immediately before the semicolon at the end thereof a comma and the following: "or real property used in the trade or business of the taxpayer."

(b) Gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business: Section 117 (relating to capital gains and losses) is amended by inserting at the end thereof the following new subsection:

"(j) Gains and losses from involuntary conversion and from the sale or exchange of certain property used in the trade or business:

"(1) Definition of property used in the trade or business: For the purposes of this subsection, the term 'property used in the trade or business' means property used in the trade or business, of a character which is subject to the allowance for depreciation provided in section 23 (1), held for more than 6 months, and real property used in the trade or business, held for more than 6 months, which is not (A) property of a kind which would properly be includible in the inventory of the taxpayer if on hand at the close of the taxable year, or (B) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business.

The amendment was agreed to.

The next amendment was, on page 147, line 9, after the words "exchanges of", to strike out "depreciable property" and insert "property used in the trade or business."

The amendment was agreed to.

The next amendment was, on the same page, line 15, after "thereof" of, to strike out "depreciable property" and insert "property used in the trade or business."

The amendment was agreed to.

The next amendment was, in line 17, to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, in line 21, to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 148, line 7, after the words "condemnation of", to strike out "depreciable property" and insert "property used in the trade or business."

The amendment was agreed to.

The next amendment was, in line 9, to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 148, after line 10, to insert:

(c) Holding period of property acquired in exchange for property involuntarily converted:

(1) In general: Section 117 (h) (1) is amended by inserting after the period at the end thereof the following new sentence: "For the purposes of this paragraph, an involuntary conversion described in section 112 (f) shall be considered an exchange of the property converted for the property acquired."

(2) Taxable years to which applicable: The amendment made by paragraph (1) shall be

applicable with respect to taxable years beginning after December 31, 1938.

The amendment was agreed to.

The next amendment was, on page 149, after line 4, to insert:

(e) Partial failure to replace property: The last sentence of section 112 (f) is amended to read as follows: "The gain, if any, shall be recognized to the extent of the money which is not so expended (regardless of whether such money is received in one or more taxable years and regardless of whether or not the money which is not so expended constitutes gain)."

The amendment was agreed to.

The next amendment was, on page 149, after line 22, to insert:

Sec. 155. Two-year carry-back of net operating losses.

(a) Determination of carry-back: Section 122 (b) (relating to the amount of the net operating loss carry-over), is amended to read as follows:

"(b) Amount of carry-back and carry-over—

"(1) Net operating loss carry-back: If for any taxable year beginning after December 31, 1941, the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-back for each of the 2 preceding taxable years, except that the carry-back in the case of the first preceding taxable year shall be the excess, if any, of the amount of such net operating loss over the net income for the second preceding taxable year computed (A) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and (B) by determining the net operating loss deduction for such second preceding taxable year without regard to such net operating loss.

"(2) Net operating loss carry-over: If for any taxable year the taxpayer has a net operating loss, such net operating loss shall be a net operating loss carry-over for each of the 2 succeeding taxable years, except that the carry-over in the case of the second succeeding taxable year shall be the excess, if any, of the amount of such net operating loss over the net income for the intervening taxable year computed (A) with the exceptions, additions, and limitations provided in subsection (d) (1), (2), (4), and (6), and (B) by determining the net operating loss deduction for such intervening taxable year without regard to such net operating loss and without regard to any net operating loss carry-back. For the purposes of the preceding sentence, the net operating loss for any taxable year beginning after December 31, 1941, shall be reduced by the sum of the net income for each of the 2 preceding taxable years (computed for each such preceding taxable year with the exceptions, additions, and limitations provided in subsec. (d) (1), (2), (4), and (6), and computed by determining the net operating loss deduction without regard to such net operating loss or to the net operating loss for the succeeding taxable year)."

(b) Amount of net operating loss deduction: Section 122 (c), relating to the amount of the net operating loss deduction, is amended by inserting in lieu of "amount of the net operating loss carry-over" the following: "aggregate of the net operating loss carry-overs and of the net operating loss carry-backs to the taxable year."

(c) Section 122 (e) is amended to read as follows:

"(e) No carry-back to year prior to 1941: As used in this section, the term 'preceding taxable year' and the term 'preceding taxable years' do not include any taxable year beginning prior to January 1, 1941."

(d) Limitation on interest on overpayment caused by a carry-back of loss or credit: Section 3771 (relating to interest on overpayments) is amended by inserting at the end thereof the following:

"(e) Claims based on carry-back of loss or credit: If the Commissioner determines that any part of an overpayment is attributable to the inclusion in computing the net operating loss deduction for the taxable year of any part of the net operating loss for a succeeding taxable year or to the inclusion in computing the unused excess profits credit adjustment for the taxable year of any part of the unused excess profits credit for a succeeding taxable year, no interest shall be allowed or paid with respect to such part of the overpayment for any period before the filing of a claim for credit or refund of such part of the overpayment or the filing of a petition with the Board, whichever is earlier."

(e) Effective date: The amendments made by this section shall be applicable only to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 153, in line 5, after the word "beginning", to insert "provided the records of the taxpayer are sufficient to permit an accurate computation of income for such years, and the taxpayer consents in writing to the assessment, within such period as may be agreed upon, of any deficiency for such years, even though the statutory period for the assessment of any such deficiency had expired prior to the filing of such consent."

The amendment was agreed to.

The next amendment was, on page 153, line 21, after the word "Facilities", to strike out "to persons other than corporations."

The amendment was agreed to.

The next amendment was, on page 154, line 15, after the words "expiration of", to strike out "three" and insert "six."

The amendment was agreed to.

The next amendment was, in line 19, before the word "Section", to insert "(1)."

The amendment was agreed to.

The next amendment was, on page 155, after line 12, to insert:

(2) Section 124 (d) is amended by inserting at the end thereof the following new paragraph:

"(6) In the case of a taxpayer which has not elected, in the manner prescribed in subsection (b), to take an amortization deduction with respect to an emergency facility, if the date of the proclamation referred to in paragraph (1) of this subsection is before the completion of such emergency facility, then the taxpayer may elect (in accordance with paragraph (4) of this subsection) the amortization deduction provided in subsection (a), using an amortization period beginning with the month in which the construction, reconstruction, erection, or installation of the emergency facility was begun and ending as of the end of the month within which such proclamation was issued or within which occurred the date specified in the certificate referred to in paragraph (1) of this subsection, whichever is the earlier."

The amendment was agreed to.

The next amendment was, on page 156, line 14, after the word "made", to insert "For the purposes of this section, the part of any facility which was constructed, reconstructed, erected, or installed by any

person after December 31, 1939, and not earlier than 6 months prior to the filing of an application for a certificate under subsection (f), and with respect to which part a certificate under subsection (f) has been made, shall be deemed to be an emergency facility, notwithstanding that the other part of such facility was constructed, reconstructed, erected, or installed earlier than 6 months prior to the filing of such application."

The amendment was agreed to.

The next amendment was, in line 25, after the word "any" to strike out "emergency."

The amendment was agreed to.

The next amendment was, on page 158, line 17, after the words "expiration of", to strike out "three" and insert "six."

The amendment was agreed to.

The next amendment was, on page 159, line 2, after the words "expiration of", to strike out "three" and insert "six."

The amendment was agreed to.

The next amendment was, in line 13, after "(3)", to insert "or subsection (d) (6)."

The amendment was agreed to.

The next amendment was, in line 21, after the words "expiration of", to strike out "nine" and insert "twelve."

The amendment was agreed to.

The next amendment was, on page 160, in line 4, to strike out "six" and insert "nine", and in line 6, to strike out "nine" and insert "twelve."

The amendment was agreed to.

The next amendment was, on page 161, line 13, after "extension", to strike out "to persons other than corporations."

The amendment was agreed to.

The next amendment was, in line 17, after "Chapter 1", to insert "Chapter 2B, or Chapter 2E."

The amendment was agreed to.

The next amendment was, at the top of page 162 to insert:

Sec. 158. War losses

(a) Losses from war taxation of property recovered, and basis of property: The Internal Revenue Code is amended by inserting after section 126 the following new section:

"Sec. 127. War losses

"(a) Cases in which loss deemed sustained, and time deemed sustained: For the purposes of this chapter—

"(1) Property not in enemy countries: Property destroyed or seized on or after December 7, 1941, in the course of military or naval operations by the United States or any other country engaged in the present war shall be deemed to have been destroyed or seized on a date chosen by the taxpayer in the manner provided in paragraph (4), which falls between—

"(A) The latest date, as established to the satisfaction of the Commissioner, on which such property may be considered as not destroyed or seized, and

"(B) The earliest date, as established to the satisfaction of the Commissioner, on which such property may be considered as having already been destroyed or seized.

For the purposes of this paragraph property within an area which comes under the control of a country at war with the United States after the date war with such country is declared by the United States shall be deemed to have been destroyed or seized in the course of military or naval operations by such country, and the date specified in subparagraph (A) shall not be later than the latest date determined by the Commissioner as the date

on which such area was under the control of the United States or a country not at war with the United States, and the date specified in subparagraph (B) shall not be later than the earliest date determined by the Commissioner as the date on which such area may be considered under the control of the country which is at war with the United States.

"(2) Property in enemy countries: Property within any country at war with the United States, or within an area under the control of any such country on the date war with such country was declared by the United States, shall be deemed to have been destroyed or seized on the date war with such country was declared by the United States.

"(3) Investments referable to destroyed or seized property: Any interest in, or with respect to, property described in paragraph (1) or (2) (including any interest represented by a security as defined in sec. 23 (g) (3) or sec. 23 (k) (3)) which becomes worthless shall be considered to have been destroyed or seized (and the loss therefrom shall be considered a loss from destruction or seizure) on the date chosen by the taxpayer which falls between the dates specified in paragraph (1), or on the date prescribed in paragraph (2), as the case may be, when the last property (described in the applicable paragraph) to which the interest relates would be deemed destroyed or seized under the applicable paragraph. This paragraph shall apply only if the interest would have become worthless if the property had been destroyed. For the purposes of this paragraph, an interest shall be deemed to have become worthless notwithstanding the fact that such interest has a value if such value is attributable solely to the possibility of recovery of the property, compensation (other than insurance or similar indemnity) on account of its destruction or seizure, or both. Section 23 (g) (2) and (k) (2) shall not apply to any interest which under this paragraph is considered to have been destroyed or seized.

"(4) Choice of date: The taxpayer's choice of a date under paragraph (1) or (3) shall be effective only if made within such time and in such manner as may be prescribed by regulations prescribed by the Commissioner with the approval of the Secretary.

"(b) Amount of loss on destroyed or seized property: In the case of any property or interest in or with respect to property deemed to be destroyed or seized under subsection (a)—

"(1) The amount of the loss on account of such property or interest shall be determined with regard to any recoveries with respect thereto in the taxable year but without regard to any possibility of recovering such property or interest, or of receiving any compensation (other than insurance or similar indemnity) on account of such property or interest in the taxable year or in any future taxable year.

"(2) The taxpayer may choose to decrease the amount of the loss by all obligations or liabilities of the taxpayer with respect to such property or interest discharged or satisfied out of the property or interest upon its destruction or seizure, if the Commissioner is satisfied that such obligations or liabilities are so discharged or satisfied in a subsequent taxable year, or that the taxpayer is unable to determine whether or not such obligations or liabilities are in fact discharged or satisfied.

No loss shall be deemed to have been sustained upon the destruction or seizure of such property or interest to the extent that it is compensated for by the discharge or satisfaction of obligations and liabilities of the taxpayer out of such property or interest in the taxable year in which such destruction or seizure is deemed to have occurred. The taxpayer's choice under this subsection shall be effective only if made within such time

and in such manner as may be prescribed by regulations prescribed by the Commissioner with the approval of the Secretary.

"(c) Recoveries included in gross income:

"(1) General rule: Upon the recovery in the taxable year of any money or property in respect of property considered under subsection (a) as destroyed or seized in any prior taxable year, the amount of such recovery shall be included in gross income to the extent provided in paragraph (2).

"(2) Amount of gain includible: The amount of the recovery of any money or property in respect of property considered under subsection (a) as destroyed or seized shall be an amount equal to the aggregate of such money and the fair market value of such property, determined as of the date of the recovery. To the extent that such amount plus the aggregate of the amounts of previous such recoveries do not exceed that part of the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a) which did not result in a reduction of any tax of the taxpayer under this chapter, such amount shall not be includible in gross income and shall not be deemed gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed that part of the aggregate of such deductions which did not result in a reduction of any tax of the taxpayer under this chapter and do not exceed that part of the aggregate of such deductions which did result in a reduction of any tax of the taxpayer under this chapter, such amount shall be included in gross income but shall not be deemed a gain upon the involuntary conversion of property as a result of its destruction or seizure. To the extent that such amount plus the aggregate of the amounts of previous such recoveries exceed the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), such amount shall be considered a gain upon the involuntary conversion of property as a result of its destruction or seizure and shall be recognized or not recognized as provided in section 112 (f). If for any previous taxable year the taxpayer chooses under subsection (b) to treat any obligations and liabilities as discharged or satisfied out of the property or interest described in subsection (a), and if such obligations and liabilities were not so discharged or satisfied, the amount of such obligations and liabilities treated as discharged or satisfied under subsection (b) shall be considered for the purposes of this section as a deduction by reason of this section which did not result in a reduction of any tax of the taxpayer under this chapter. For the purposes of this paragraph an allowable deduction for any taxable year on account of the destruction or seizure of property described in subsection (a) shall, to the extent not allowed in computing the tax of the taxpayer for such taxable year, be considered an allowable deduction which did not result in a reduction of any tax of the taxpayer under this chapter.

"(3) Restoration of value of investments referable to destroyed or seized property: For the purposes of paragraphs (1) and (2), the restoration in whole or in part of the value of any interest described in subsection (a) (3) by reason of any recovery of money or property in respect of property to which such interest related and which was considered under subsection (a) (1) or (2) as destroyed or seized shall be deemed a recovery of property in respect of property considered under subsection (a) as destroyed or seized.

"(d) Basis of recovered property: The unadjusted basis of property recovered in respect of property considered destroyed or seized under subsection (a) shall be deter-

mined under this subsection. Such basis shall be an amount equal to the fair market value of such property, determined as of the date of the recovery, reduced by an amount equal to the excess of the aggregate of such fair market value and the amounts of previous recoveries of money or property in respect of property considered under subsection (a) as destroyed or seized over the aggregate of the allowable deductions in prior taxable years on account of the destruction or seizure of property described in subsection (a), and increased by that portion of the amount of the recovery which under subsection (c) is treated as a recognized gain from the involuntary conversion of property. Upon application of the taxpayer, the aggregate of the bases (determined under the preceding sentence) of any properties recovered in respect of properties considered under subsection (a) as destroyed or seized may be allocated among the properties so recovered in such manner as the Commissioner may determine under regulations prescribed by him with the approval of the Secretary, and the amount so allocated to any such property so recovered shall be the unadjusted basis of such property in lieu of the unadjusted basis of such property determined under the preceding sentence.

"(e) Partial worthlessness of certain investments in destroyed or seized property:

"(1) Destruction or seizure of investment: If a taxpayer owns 50 percent of each class of stock of a corporation, if such corporation has property described in subsection (a) (1) or (2) deemed to be destroyed or seized, the adjusted basis for determining loss of which is at least 75 percent of the adjusted basis for determining loss of all such corporation's property, and if such corporation completely liquidates within 1 year after such property is deemed to be destroyed or seized, or within 6 months after the date of the enactment of the Revenue Act of 1942, whichever is the later, then that part of the loss by the taxpayer on such liquidation which would be attributable to the destruction or seizure of such property, as established to the satisfaction of the Commissioner, shall be treated for the purposes of this chapter as a loss by the taxpayer upon the destruction or seizure of the part of the stock of the taxpayer to which such loss is allocable. Such part of the stock of the taxpayer shall be treated for the purposes of subsections (b), (c), and (d) as property described in subsection (a) (3).

"(2) Application of paragraph (1): For the purposes of paragraph (1)—

"(A) In determining the adjusted basis of all the property of the corporation, there shall be excluded money in the United States, bank deposits, the right to receive money from any person not situated in a country at war with the United States or in a territory under the control of such a country, and obligations issued or guaranteed as to principal or interest by the United States, except that there shall not be excluded any such property which is destroyed or seized as described in subsection (a) within or before the taxable period.

"(B) The adjusted basis of property of such corporation shall be determined as of the date immediately preceding the first date on which any property was destroyed or seized, as described in subsection (a), or as of any later date falling within or before the taxable period on the basis of which such determination will produce a greater amount.

"(f) Determination of tax benefits: The determination as to whether and to what extent an allowable deduction on account of the destruction or seizure of property described in subsection (a) did or did not result in a reduction of any tax of the taxpayer under this chapter shall be made in accordance with regulations prescribed by

the Commissioner with the approval of the Secretary."

(b) Taxable years to which amendments applicable: The amendments made by this section shall be applicable to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 172, after line 6, to insert:

Sec. 159. Recovery of unconstitutional Federal taxes.

Chapter 1 of the Internal Revenue Code is amended by inserting after section 127 the following new section:

"Sec. 128. Recovery of unconstitutional Federal taxes.

"Income (excluding interest) attributable to the recovery during the taxable year of a tax imposed by the United States which has been held unconstitutional, and in respect of which a deduction was allowed in a prior taxable year may be excluded from gross income for the taxable year, and the deduction allowed in respect thereof in such prior taxable year treated as not having been allowable, if—

"(a) The taxpayer elects in writing (at such time and in such manner as may be prescribed by regulations prescribed by the Commissioner with the approval of the Secretary) to treat such deduction as not having been allowable for such prior taxable year, and in addition to treat any tax (including interest with respect thereto) under chapter 2D or the corresponding provisions of a prior revenue law paid or incurred in respect of the recovery of such unconstitutional tax as having been paid or incurred in such prior taxable year, and

"(b) The taxpayer consents in writing to the assessment, within such period as may be agreed upon, of any deficiencies resulting from such treatment, even though the statutory period for the assessment of any such deficiency had expired prior to the filing of such consent."

The amendment was agreed to.

The next amendment was, on page 173, in lines 8 and 9, to strike out:

Sec. 141. Foreign tax credit on amount of subsidiary of foreign subsidiary.

The amendment was agreed to.

The next amendment was, on page 173, after line 9, to insert:

Sec. 160. Foreign tax credit.

(a) Choice of credit: Section 131 (a) (relating to allowance of credit for taxes of foreign countries and possessions of the United States) is amended to read as follows:

"(a) Allowance of credit: If the taxpayer chooses to have the benefits of this section, the tax imposed by this chapter, except the tax imposed under section 102 or section 450, shall be credited with:

"(1) Citizens and domestic corporations: In the case of a citizen of the United States and of a domestic corporation, the amount of any income, war-profits, and excess-profits taxes paid or accrued during the taxable year to any foreign country or to any possession of the United States; and

"(2) Resident of United States: In the case of a resident of the United States, the amount of any such taxes paid or accrued during the taxable year to any possession of the United States; and

"(3) Alien resident of United States: In the case of an alien resident of the United States, the amount of any such taxes paid or accrued during the taxable year to any foreign country, if the foreign country of which such alien resident is a citizen or subject, in imposing such taxes, allows a similar credit to citizens of the United States residing in such country; and

"(4) Partnerships and estates: In the case of any such individual who is a member of a partnership or a beneficiary of an estate or trust, his proportionate share of such taxes of the partnership or the estate or trust paid or accrued during the taxable year to a foreign country or to any possession of the United States, as the case may be.

"Such choice may be made or changed at any time prior to the expiration of the period prescribed for making a claim for credit or refund of the tax imposed by this chapter."

(b) Deduction denied if credit chosen: Section 23 (c) (1) (C) (relating to deduction from gross income for taxes) is amended to read as follows:

"(C) Income, war-profits, and excess-profits taxes imposed by the authority of any foreign country or possession of the United States, if the taxpayer chooses to take to any extent the benefits of section 131."

(c) The amendments made by subsections (a) and (b) shall be applicable with respect to taxable years beginning after December 31, 1940.

(d) Limit on credit in case of corporations: Section 131 (b) is amended to read as follows:

"(b) Limit on credit: The amount of the credit taken under this section shall be subject to each of the following limitations:

"(1) The amount of the credit in respect of the tax paid or accrued to any country shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's net income from sources within such country bears to his entire net income, in the case of a taxpayer other than a corporation, or to the sum of the normal-tax net income and the amount of the credit for adjusted excess profits net income provided in section 26 (e), in the case of a corporation, for the same taxable year; and

"(2) The total amount of the credit shall not exceed the same proportion of the tax against which such credit is taken, which the taxpayer's net income from sources without the United States bears to his entire net income, in the case of a taxpayer other than a corporation, or to the sum of the normal-tax net income and the amount of the credit for adjusted excess profits net income provided in section 26 (e), in the case of a corporation, for the same taxable year."

The amendment was agreed to.

The next amendment was, on page 176, line 7, before the word "section", to insert "(e) Credit on account of subsidiary or foreign subsidiary."

The amendment was agreed to.

The next amendment was, on page 173, after line 9, to insert:

(b) Credit for taxes in lieu of income, etc., taxes: Section 131 (relating to credit for taxes of foreign countries and possessions of the United States) is amended by inserting at the end thereof the following new subsection:

"(h) Credit for taxes in lieu of income, etc., taxes: For the purposes of this section and section 23 (c) (1), the term 'income, war-profits, and excess-profits taxes' shall include a tax paid in lieu of a tax upon income, war-profits, or excess-profits otherwise generally imposed by any foreign country or by any possession of the United States."

The amendment was agreed to.

The next amendment was, on page 179, line 8, after the word "group", to strike out "the condition that the affiliated group (which, for consolidated income-tax return purposes, shall include corporations subject to the tax imposed by this chapter whether or not such corporations are includible for consolidated excess-profits-tax-return purposes"; in

line 14, after the word "which", to strike out "at any time"; and in line 25, after the word "group", to insert "In the case of a corporation which is not a member of the affiliated group after March 31, 1942, of the last taxable year of such group which begins before April 1, 1942, such corporation shall not be considered a member of the affiliated group for consolidated income-tax-return purposes for such year but shall be considered a member of such group for consolidated excess-profits-tax-return purposes for such year, and the consent required in the case of such corporation shall relate only to the consolidated excess-profits-tax regulations.

The amendment was agreed to.

The next amendment was, on page 180, line 20, after the word "liability" and the period, to insert "Such regulations shall prescribe the amount of the net operating loss deduction of each member of the group which is attributable to a deduction allowed for a taxable year beginning in 1941 on account of property considered as destroyed or seized under section 127 (relating to war losses), and the allowance of the amount so prescribed as a deduction in computing the net income of the group shall not be limited by the amount of the net income of such member."

The amendment was agreed to.

The next amendment was, on page 181, line 14, after the words "exemption of" to strike out "\$10,000" and insert "\$5,000."

The amendment was agreed to.

The next amendment was, on page 182, line 23, after "United States," to strike out the comma and the words "except corporations electing under section 251 (b) not to be taxed under such section."

The amendment was agreed to.

The next amendment was, on page 183, after line 4, to strike out:

- (7) Personal service corporations.
- (8) Personal holding companies as defined in section 501.
- (9) For consolidated excess-profits-tax-return purposes, corporations exempt under section 727 from the tax imposed by Subchapter E of Chapter 2.

The amendment was agreed to.

The next amendment was, on the same page, after line 17, to strike out:

- (g) Includible personal holding companies: If the common parent corporation of a group of corporations which would be an affiliated group were it not for the provisions of paragraph (8) of subsection (e) satisfies the stock ownership requirement provided in section 501 (a) (2), and the gross income of such group, determined under regulations prescribed under subsection (b), satisfies the gross income requirement provided in section 501 (a) (1), the several corporations of such group shall, despite the provisions of paragraph (8) of subsection (e), be considered as includible corporations for consolidated income-tax return purposes.

The amendment was agreed to.

The next amendment was, on page 186, after line 12, to insert:

- (b) Section 14 (c) (relating to tax on foreign corporations) is amended—
- (1) By striking out in paragraph (1) thereof "or having an office or place of business therein", and

- (2) By striking out in paragraph (2) thereof "and not having an office or place of business therein."

The amendment was agreed to.

The next amendment was, on page 187, after line 15, to insert:

Sec. 163. Deductions for estate tax and income tax of estate.

(a) Double deductions denied: Section 162 (relating to net income of estates and trusts) is amended by inserting at the end thereof the following new subsection:

"(e) Amounts allowable under section 812 (b) as a deduction in computing the net estate of a decedent shall not be allowed as a deduction under section 23 except subsection (w), in computing the net income of the estate unless there is filed, within the time and in the manner and form prescribed by the Commissioner, a statement that the items have not been claimed or allowed as deductions under section 812 (b) and a waiver of the right to have such items allowed at any time as deductions under section 812 (b)."

(b) Taxable years to which amendment applicable: The amendment made by subsection (a) insofar as it relates to section 23 (a) (2) shall be applicable with respect to the same taxable years and the same revenue laws as the amendments made by section 121 (relating to nontrade or nonbusiness deductions) of this act, and the other provisions shall be applicable to taxable years beginning after December 31, 1941.

The amendment was agreed to.

The next amendment was, on page 188, after line 12, to strike out:

Sec. 144. Pension trusts.

(a) Exemption of trusts: Section 165 (relating to employees' trusts) is amended to read as follows:

"Sec. 165. Employees' trusts.

"(a) Exemption from tax: A trust forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees shall not be taxable under this supplement and no other provision of this supplement shall apply with respect to such trust or to its beneficiary—

"(1) If contributions are made to the trust by such employer, or employees, or both, for the purpose of distributing to such employees the earnings and principal of the fund accumulated by the trust in accordance with such plan;

"(2) If under the trust instrument it is impossible for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees;

"(3) In the case of a pension plan, if the trust or two or more trusts designated by the employer as constituting parts of such a plan, or in the case of a stock bonus plan if the trust or two or more trusts designated by the employer as constituting parts of such a plan, or in the case of a profit-sharing plan if the trust or two or more trusts designated by the employer as constituting parts of such a plan, benefit either—

"(A) Seventy percent or more of all of the employees, excluding employees who have been employed not more than a minimum period prescribed by the terms of the trust instrument, not exceeding 5 years, employees whose customary employment is for not more than 3 hours in any 1 day, and employees whose customary employment is for not more than 3 months in any calendar year, or

"(B) Such employees as qualify under a classification set up by the employer and found by the Commissioner not to be discriminatory in favor of employees who are

officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees; and

"(4) If the contributions or benefits provided under the trust or all of the trusts constituting parts of a stock bonus, pension, or profit-sharing plan of an employer do not have the effect of discriminating in favor of any employee whose compensation is greater than that of other employees.

"(b) Taxability of beneficiary: The amount actually distributed or made available to any distributee by any such trust shall be taxable to him, in the year in which so distributed or made available, under section 22 (b) (2) as if it were an annuity the consideration for which is the amount contributed by the employee.

"(c) Treatment of beneficiary of trust not exempt under subsection (a): If an employee's trust does not satisfy the requirements of subsection (a) during the whole of its taxable year, contributions made by the employer shall be included in the gross income of an employee whose beneficial interest in such contribution is nonforfeitable for the taxable year of the beneficiary in which the contribution is made to the trust, or in case the interest of the beneficiary in the employer's contributions changes from a forfeitable interest to a nonforfeitable interest, in the taxable year of the beneficiary in which such change occurs."

(b) Deduction allowed employer: Section 23 (p) (relating to deduction for amounts paid to pension trusts) is amended to read as follows:

"(p) Compensation paid for personal services under a trust, annuity, or deferred-payment plan.

"(1) General rule: If compensation for personal services rendered is paid or accrued on account of any employee under a stock bonus, pension, profit-sharing, or annuity plan, or similar plan deferring the receipt of such compensation, then such compensation shall not be deductible under subsection (a) but shall be deductible, if deductible under subsection (a) without regard to this subsection, under this subsection but only to the following extent:

"(A) In the taxable year when paid, if the compensation is paid into a trust which is exempt under section 165 (a), in an amount not in excess of 5 percent of the compensation otherwise paid or accrued during the taxable year to the persons who are made the beneficiaries of the contributions paid into the trust. The excess over 5 percent of the amount so paid shall be deductible in equal parts over a period of 60 consecutive months beginning with the beginning of the first month of the year in which the payment is made to the trust.

"(B) In the taxable year when paid if the compensation is paid into a trust in a taxable year of the trust for which the trust is not exempt under section 165 (a) if the employee's rights to such compensation are nonforfeitable.

"(C) If any such compensation is paid through the purchase of an annuity contract for the benefit of an employee:

"(i) Subparagraph (A) shall apply to the deductibility of such compensation if the plan of deferred payment would be exempt under section 165 (a) if it constituted a trust instead of a plan for the purchase of annuity contracts,

"(ii) Subparagraph (B) shall apply to the deductibility of such compensation if the plan of deferred payment would not be exempt under section 165 (a) if it constituted a trust instead of a plan for the purchase of annuity contracts, provided the interest of the employee in such contract is nonforfeitable.

"(D) In the taxable year when paid, in cases not included in subparagraph (A), (B), or (C), if the employee's rights to such compensation are nonforfeitable.

"(E) If amounts are deductible under paragraph (A) or (C) (1) in connection with two or more trusts or one or more trusts and an annuity plan, the total amount deductible in a taxable year under such plans shall not exceed 5 percent of the compensation otherwise paid or accrued during the taxable year to the persons who are made the beneficiaries of the compensation paid into such trusts and for such annuity contracts. The excess over 5 percent of the amount so paid shall be deductible in equal parts over a period of 60 consecutive months beginning with the beginning of the first month of the year in which the payment is made to any of the trusts or for any annuity contract.

If there is no plan but the method of compensating for personal services has the effect of a stock bonus, pension, profit sharing, or annuity plan, or similar plan deferring the receipt of compensation, this paragraph shall apply as if there were such a plan.

"(2) Deductions under prior income tax acts: Any deduction allowable under section 23 (q) of the Revenue Act of 1928 (45 Stat. 802), or the Revenue Act of 1932 (47 Stat. 182), or the Revenue Act of 1934 (48 Stat. 691), under section 23 (p) of the Revenue Act of 1936 (49 Stat. 1661), or the Revenue Act of 1938 (52 Stat. 464), or the Internal Revenue Code for a taxable year beginning before January 1, 1942, which under such section was apportioned to any taxable year beginning after December 31, 1941, shall be allowed as a deduction in the years to which so apportioned to the extent allowable under such section if it had remained in force with respect to such year.

"(3) Exemption of trusts under section 165: The provisions of paragraph (1) (A) and paragraph (2) of this subsection shall be subject to the qualification that the deduction under either such subparagraph or paragraph (2) shall be allowable only with respect to a taxable year (whether the year of payment or a subsequent year) of the employer ending within or with a taxable year of the trust with respect to which the trust is exempt from tax under section 165 (a). The provisions of paragraph (1) (C) of this subsection shall be subject to the qualification that the deduction under such subparagraph shall be allowable only with respect to a taxable year (whether the year of payment or a subsequent year) of the employer during the whole of which the annuity plan, if it had been a trust having the same taxable year as the employer, would have been a trust exempt from tax under section 165 (a)."

(c) Employees' annuities: Section 22 (b) (2) (relating to taxation of annuities) is amended as follows:

(1) By striking out the heading and inserting in lieu thereof the following:

"(2) Annuities, etc.

"(A) In general."

(2) By inserting at the end thereof the following new subparagraph:

"(B) Employees' annuities: If an annuity contract is purchased by an employer for an employee under a plan which would meet the requirements of section 165 (a) with respect to pension trusts if the trust device had been used instead of the employer purchasing the annuity contract, the employee shall include in his income the amounts received under such contract in the year received except that if the employee paid any of the consideration for the annuity, the annuity shall be included in his income as provided in subparagraph (A) of this paragraph. In all other cases, if the employee's rights under the contract are nonforfeitable except for failure to pay future premiums, the amount paid by the employer for such annuity contract shall be included in the income of the employee in the year in which the amount is paid, which amount together with any

amounts paid by the employee shall constitute the consideration paid for the annuity contract in determining the amount of the annuity required to be included in the income of the employee under subparagraph (A) of this paragraph. If the right of the employee changes from a forfeitable to a nonforfeitable right, in lieu of including, under the preceding sentence, the amount paid by the employer in the income of the employee in the year in which the amount is paid, such amount shall be included in the income of the employee in the year in which the change occurs."

(d) Taxable years to which amendments applicable: The amendments made by this section shall be applicable only with respect to taxable years beginning after December 31, 1941, except that a plan and the trust or trusts, or annuity contract or contracts, forming a part of a plan in existence on the date of enactment of this act shall be considered as satisfying the requirements of section 165 (a) of the Internal Revenue Code for the first taxable year to which that subsection, as amended by this act, is applicable if the plan and the trust or trusts, or annuity contract or contracts, forming a part of the plan by the last day of such first taxable year satisfy such requirements.

The amendment was agreed to.

The next amendment was, on page 197, after line 5, to insert:

SEC. 164. Pension trusts.

(a) Exemption of trusts: Section 165 (relating to employees' trusts) is amended to read as follows:

"SEC. 165. Employees' trusts.

"(a) Exemption from tax: A trust forming part of a stock bonus, pension, or profit-sharing plan of an employer for the exclusive benefit of his employees or their beneficiaries shall not be taxable under this supplement and no other provision of this supplement shall apply with respect to such trust or to its beneficiary—

"(1) If contributions are made to the trust by such employer, or employees, or both, for the purpose of distributing to such employees or their beneficiaries the earnings and principal of the fund accumulated by the trust in accordance with such plan;

"(2) If under the trust instrument it is impossible, at any time prior to the satisfaction of all liabilities with respect to employees and their beneficiaries under the trust, for any part of the corpus or income to be (within the taxable year or thereafter) used for, or diverted to, purposes other than for the exclusive benefit of his employees or their beneficiaries;

"(3) If the trust, or two or more trusts, or the trust or trusts and annuity plan or plans are designated by the employer as constituting parts of a plan intended to qualify under this subsection which benefits either—

"(A) Seventy percent or more of all the employees, or 80 percent or more of all the employees who are eligible to benefit under the plan if 70 percent or more of all the employees are eligible to benefit under the plan, excluding in each case employees who have been employed not more than a minimum period prescribed by the plan, not exceeding 5 years, employees whose customary employment is for not more than 20 hours in any 1 week, and employees whose customary employment is for not more than 5 months in any calendar year, or

"(B) Such employees as qualify under a classification set up by the employer and found by the Commissioner not to be discriminatory in favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees; and

"(4) If the contributions or benefits provided under the plan do not discriminate in

favor of employees who are officers, shareholders, persons whose principal duties consist in supervising the work of other employees, or highly compensated employees.

"(5) A classification shall not be considered discriminatory within the meaning of paragraphs (3) (B) or (4) of this subsection merely because it excludes employees the whole of whose remuneration constitutes 'wages' under section 1426 (a) (1) (relating to the Federal Insurance Contributions Act) or merely because it is limited to salaried or clerical employees. Neither shall a plan be considered discriminatory within the meaning of such provisions merely because the contributions or benefits of or on behalf of the employees under the plan bear a uniform relationship to the total compensation, or the basic or regular rate of compensation, of such employees, or merely because the contributions or benefits based on that part of an employee's remuneration which is excluded from 'wages' by section 1426 (a) (1) differ from the contributions or benefits based on employee's remuneration not so excluded, or differ because of any retirement benefits created under State or Federal law.

"(6) A plan shall be considered as meeting the requirements of paragraph (3) of this subsection during the whole of any taxable year of an employer if on 1 day in each quarter it satisfied such requirements.

"(b) Taxability of beneficiary: The amount actually distributed or made available to any distributee by any such trust shall be taxable to him, in the year in which so distributed or made available, under section 22 (b) (2) as if it were an annuity the consideration for which is the amount contributed by the employee, except that if the total distributions payable with respect to any employee are paid to the distributee within 1 taxable year of the distributee on account of the employee's separation from the service, the amount of such distribution to the extent exceeding the amounts contributed by the employee, shall be considered a gain from the sale or exchange of a capital asset held for more than 6 months.

"(c) Treatment of beneficiary of trust not exempt under subsection (a): Contributions to a trust made by an employer during a taxable year of the employer which ends within or with a taxable year of the trust for which the trust is not exempt under section 165 (a) shall be included in the gross income of an employee for the taxable year in which the contribution is made to the trust in the case of an employee whose beneficial interest in such contribution is nonforfeitable at the time the contribution is made."

(b) Deduction allowed employer: Section 23 (p) (relating to deduction for amounts paid to pension trusts) is amended to read as follows:

"(p) Contributions of an employer to an employees' trust or annuity plan and compensation under a deferred-payment plan.

"(1) General rule: If contributions are paid by an employer to or under a stock bonus, pension, profit-sharing, or annuity plan, or if compensation is paid or accrued on account of any employee under a plan deferring the receipt of such compensation, such contributions or compensation shall not be deductible under subsection (a) but shall be deductible, if deductible under subsection (a) without regard to this subsection, under this subsection but only to the following extent:

"(A) In the taxable year when paid, if the contributions are paid into a pension trust, and if such taxable year ends within or with a taxable year of the trust for which the trust is exempt under section 165 (a), in an amount determined as follows:

"(i) An amount not in excess of 5 percent of the compensation otherwise paid or accrued during the taxable year to all the employees under the trust, but such amount may be reduced for future years if found

by the Commissioner upon periodical examinations at not less than 5-year intervals to be more than the amount reasonably necessary to provide the remaining unfunded cost of both the past and current service credits of all employees under the plan, plus

"(ii) Any excess over the amount allowable under clause (i) necessary to provide with respect to all of the employees under the trust the remaining unfunded cost of both their past and current service credits distributed as a level amount, or a level percentage of compensation, over the remaining future service of each such employee, as determined under regulations prescribed by the Commissioner with the approval of the Secretary, but if such remaining unfunded cost with respect to any three individuals is more than 50 percent of such remaining unfunded cost, the amount of such unfunded cost attributable to such individuals shall be distributed over a period of at least 5 taxable years, or

"(iii) In lieu of the amounts allowable under (i) and (ii) above, an amount equal to the normal cost of the plan, as determined under regulations prescribed by the Commissioner with the approval of the Secretary, plus, if past service or other supplementary pension or annuity credits are provided by the plan, an amount not in excess of 10 percent of the cost which would be required to completely fund or purchase such pension or annuity credits as of the date when they are included in the plan, as determined under regulations prescribed by the Commissioner with the approval of the Secretary, except that in no case shall a deduction be allowed for any amount (other than the normal cost) paid in after such pension or annuity credits are completely funded or purchased.

"(iv) Any amount paid in a taxable year in excess of the amount deductible in such year under the foregoing limitations shall be deductible in the succeeding taxable years in order of time to the extent of the difference between the amount paid and deductible in each such succeeding year and the maximum amount deductible for such year in accordance with the foregoing limitations.

"(B) In the taxable year when paid, in an amount determined in accordance with subparagraph (A) of this paragraph, if the contributions are paid toward the purchase of retirement annuities and such purchase is a part of a plan which meets the requirements of section 165 (a), (3), (4), (5), and (6), and if refunds of premiums, if any, are applied within the current taxable year or next succeeding taxable year toward the purchase of such retirement annuities.

"(C) In the taxable year when paid, if the contributions are paid into a stock bonus or profit-sharing trust, and if such taxable year ends within or with a taxable year of the trust with respect to which the trust is exempt under section 165 (a), in an amount not in excess of 15 percent of the compensation otherwise paid or accrued during the taxable year to the persons who are made the beneficiaries of the contributions paid by the employer under the stock bonus or profit-sharing plan. If in any taxable year beginning after December 31, 1941, there is paid into the trust, or a similar trust then in effect, amounts less than the amounts deductible under the preceding sentence, the difference shall be carried forward and be deductible in the succeeding taxable years in order of time, but the amount so deductible under this sentence in any such succeeding taxable year shall not exceed 15 percent of the compensation otherwise paid or accrued during such succeeding taxable year to the beneficiaries under the plan. In addition, any amount paid into the trust in a taxable year beginning after December 31, 1941, in excess of the amount allowable with respect to such year under the preceding provisions of this subparagraph shall be deductible in the succeeding taxable years in order of time, but the amount so de-

ductible under this sentence in any one such succeeding taxable year, together with the amount allowable under the first sentence of this subparagraph shall not exceed 15 percent of the compensation otherwise paid or accrued during such taxable year to the beneficiaries under the plan. The term 'stock bonus or profit-sharing trust', as used in this subparagraph, shall not include any trust designed to provide benefits upon retirement and covering a period of years, if under the plan the amounts to be contributed by the employer can be determined actually as provided in subparagraph (A). If the contributions are made to two or more stock bonus or profit-sharing trusts, such trusts shall be considered a single trust for the purposes of applying the limitations in this subparagraph.

"(D) In the taxable year when paid, if the plan is not one included in paragraphs (A), (B), or (C), if the employees' rights to or derived from such employer's contribution or such compensation are nonforfeitable at the time the contribution or compensation is paid.

"(E) For the purposes of subparagraphs (A), (B), and (C), a taxpayer on the accrual basis shall be deemed to have made a payment on the last day of the year of accrual if the payment is on account of such taxable year and is made within 60 days after the close of the taxable year of accrual.

"(F) If amounts are deductible under subparagraphs (A) and (C), or (B) and (C), or (A) (B), and (C), in connection with two or more trusts, or one or more trusts and an annuity plan, the total amount deductible in a taxable year under such trusts and plans shall not exceed 25 per centum of the compensation otherwise paid or accrued during the taxable year to the persons who are the beneficiaries of the trusts or plans. In addition, any amount paid into such trust or under such annuity plans in a taxable year beginning after December 31, 1941, in excess of the amount allowable with respect to such year under the preceding provisions of this subparagraph shall be deductible in the succeeding taxable years in order of time, but the amount so deductible under this sentence in any one such succeeding taxable year together with the amount allowable under the first sentence of this subparagraph shall not exceed 30 per centum of the compensation otherwise paid or accrued during such taxable years to the beneficiaries under the trusts or plans. This subparagraph shall not have the effect of reducing the amount otherwise deductible under subparagraphs (A), (B), and (C), if no employee is a beneficiary under more than one trust, or a trust and an annuity plan."

If there is no plan but a method of employer contributions or compensation has the effect of a stock bonus, pension, profit-sharing, or annuity plan, or similar plan deferring the receipt of compensation, this paragraph shall apply as if there were such a plan.

"(2) Deductions under prior income-tax acts: Any deduction allowable under section 23 (q) of the Revenue Act of 1928 (45 Stat. 802), or the Revenue Act of 1932 (47 Stat. 182), or the Revenue Act of 1934 (48 Stat. 691), under section 23 (p) of the Revenue Act of 1936 (49 Stat. 1661), or the Revenue Act of 1938 (52 Stat. 464), or the Internal Revenue Code for a taxable year beginning before January 1, 1943, which under such section was apportioned to any taxable year beginning after December 31, 1942, shall be allowed as a deduction for the years to which so apportioned to the extent allowable under such section if it had remained in force with respect to such year."

(c) Employees' annuities: Section 22 (b) (2) (relating to taxation of annuities) is

amended by inserting at the end thereof the following new subparagraph:

"(B) Employees' annuities: If an annuity contract is purchased by an employer for an employee under a plan with respect to which the employer's contribution is deductible under section 23 (p) (1) (B), or if an annuity contract is purchased for an employee by an employer exempt under section 101 (6), the employee shall include in his income the amounts received under such contract for the year received except that if the employee paid any of the consideration for the annuity, the annuity shall be included in his income as provided in subparagraph (a) of this paragraph, the consideration for such annuity being considered the amount contributed by the employee. In all other cases, if the employee's rights under the contract are nonforfeitable except for failure to pay future premiums, the amount contributed by the employer for such annuity contract on or after such rights become nonforfeitable shall be included in the income of the employee in the year in which the amount is contributed, which amount together with any amounts contributed by the employee shall constitute the consideration paid for the annuity contract in determining the amount of the annuity required to be included in the income of the employee under subparagraph (A) of this paragraph."

(d) Taxable years to which amendments applicable: The amendments made by this section shall be applicable as to both the employer and employees only with respect to taxable years of the employer beginning after December 31, 1941, except that—

(1) In the case of a stock bonus, pension, profit-sharing, or annuity plan in effect on or before September 1, 1942,

(A) such a plan shall not become subject to the requirements of section 165 (a) (3), (4), (5), and (6) until the beginning of the first taxable year beginning after December 31, 1942,

(B) such a plan shall be considered as satisfying the requirements of section 165 (a) (3), (4), (5), and (6) for the period beginning with the beginning of the first taxable year following December 31, 1942, and ending December 31, 1943, if the plan satisfies such requirements by December 31, 1943,

(C) if the contribution of an employer to such a plan in the employer's taxable year beginning in 1942 exceeds the maximum amount deductible for such year under section 23 (p) (1), as amended by this section, the amount deductible in such year shall be not less than the sum of—

(i) The amount paid in such taxable year prior to September 1, 1942, and deductible under section 23 (a) or 23 (p) prior to amendment by this section, and

(ii) With respect to the amount paid in such taxable year on or after September 1, 1942, that proportion of the amount deductible for the taxable year under section 23 (p) (1), as amended by this section, which the number of months after August 31, 1942, in the taxable year bears to 12.

(2) In the case of a stock bonus, pension, profit sharing or annuity plan put into effect after September 1, 1942, such a plan shall be considered as satisfying the requirements of section 165 (a) (3), (4), (5), and (6) for the period beginning with the date such plan is put into effect and ending December 31, 1943, if the plan satisfies such requirements by December 31, 1943.

Mr. GEORGE. Mr. President, the Senator from Maryland [Mr. Tydings] asked that a portion of this pension trust amendment be passed over. If the amendment shall now be agreed to, I ask consent that it may be reconsidered

if the Senator wishes to make inquiry about it.

The PRESIDING OFFICER. Without objection, it is so ordered.

The question is on agreeing to the committee amendment.

The amendment was agreed to.

The next amendment was, on page 211, after line 9, to strike out:

SEC. 201. Life-insurance companies.

(a) Imposition of tax:

(1) In general: There shall be levied, collected, and paid for each taxable year upon the adjusted normal tax net income (as defined in section 202) and upon the adjusted corporation surtax net income (as defined in section 203) of every life insurance company taxes at the rates provided in section 13 or section 14 (b) and in section 15 (b).

(2) Normal tax and corporation surtax net income of foreign life insurance companies: In the case of a foreign life insurance company, the normal tax net income shall be the net income from sources within the United States minus the credit provided in section 26 (a), the credit provided in section 26 (b), and the credit for income subject to the tax imposed by subchapter E of chapter 2 provided in section 26 (c), and the corporation surtax net income shall be the net income from sources within the United States minus the credit provided in section 26 (b) (computed by limiting such credit to 85 percent of the net income reduced by the credit for income subject to the tax imposed by subchapter E of chapter 2 in lieu of 85 percent of the adjusted net income so reduced) and minus the credit for income subject to the tax imposed by subchapter E of chapter 2 provided in section 26 (c).

(3) No United States insurance business: Foreign life insurance companies not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.

(b) Definition of a life insurance company: When used in this chapter, the term "life insurance company" means an insurance company (other than a burial or funeral benefit company) engaged in the business of issuing life insurance and annuity contracts (including contracts of combined life, health, and accident insurance, and noncancellable contracts of health and accident insurance), for which the life insurance reserves (as defined in subsection (c) (2) plus the pro rata unearned premiums and the total unpaid losses on noncancellable health and accident policies comprise more than 50 percent of its total reserves. For the purpose of this subsection total reserves means life insurance reserves, unearned premiums, unpaid losses, and all other insurance reserves required by law.

(c) Other definitions: In the case of a life insurance company, when used in this section, section 202, and section 203—

(1) Gross income: The term "gross income" means the gross amount of income received during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets, acquired subsequent to December 31, 1941, to the extent provided in section 117.

(2) Life insurance reserves: The term "life insurance reserves" means amounts computed or estimated on the basis of recognized experience tables with interest assumed as a factor which, with accretions from interest, are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued and contingent claims arising from life insurance contracts and noncancellable health and accident contracts. Such life insurance reserves, except in the case of policies covering life, health, and accident insurance combined in one policy issued on

the weekly premium payment plan, continuing for life and not subject to cancellation, must also be required by law.

(3) Adjusted reserves: The term "adjusted reserves" means life insurance reserves computed by adding thereto an amount equal to 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(4) Reserve earnings rate: The term "reserve earnings rate" means a rate computed by adding 2.1125 percent (65 percent of $3\frac{1}{4}$ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by applying each assumed rate of interest to the mean of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

(5) Reserve for deferred dividends: The term "reserve for deferred dividends" means sums held at the end of the taxable year as a reserve for dividends (other than dividends payable during the year following the taxable year) the payment of which is deferred for a period of not less than 5 years from the date of the policy contract.

(6) Interest paid: The term "interest paid" means—

(A) All interest paid within the taxable year on its indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter; and

(B) All amounts in the nature of interest, whether or not guaranteed, paid within the taxable year on insurance contracts (or contracts arising out of insurance contracts) which do not involve, at the time of payment, life, health, or accident contingencies.

(7) Net income: The term "net income" means the gross income less—

(A) Tax-free interest: The amount of interest received during the taxable year which under section 22 (b) (4) is excluded from gross income;

(B) Investment expenses: Investment expenses paid during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this subparagraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which net income computed without any deduction for investment expenses allowed by this subparagraph, exceeds $3\frac{1}{4}$ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year;

(C) Real estate expenses: Taxes and other expenses paid during the taxable year exclusively upon or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder of a company upon his interest as shareholder, which are paid by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes;

(D) Depreciation: A reasonable allowance, as provided in section 23 (1), for the exhaustion, wear, and tear of property, including a reasonable allowance of obsolescence;

(E) Capital losses: Losses from sales or exchanges of capital assets, acquired subse-

quent to December 31, 1941, to the extent provided in section 117;

(F) Bond premium deduction: The deduction for amortizable bond premium provided in section 125.

(d) Rental value of real estate: The deduction under subsection (c) (7) (C) or (c) (7) (D) of this section on account of any real estate owned and occupied in whole or in part by a life insurance company, shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

(e) Deductions of foreign exportations: In the case of a foreign corporation the deductions allowed in this section shall be allowed to the extent provided in Supplement I in the case of a foreign corporation engaged in trade or business within the United States.

(f) Double deductions: Nothing in this section or in section 202 or 203 shall be construed to permit the same items to be twice deducted.

(g) Health and accident insurance: The net income of a life insurance company writing cancelable health and accident contracts shall be determined by adding to the net income computed under subsection (c) (7) of this section, $3\frac{1}{4}$ percent of the unearned premiums and unpaid losses on such contracts. For the purposes of this subsection such unearned premiums shall be considered to be not less than 25 percent of the net premiums written during the taxable year on such contracts.

SEC. 202. Adjusted normal tax net income.

(a) Definition: For the purposes of section 201, the term "adjusted normal tax net income" means the normal tax net income minus the reserve and other policy liability credit provided in subsection (b).

(b) Reserve and other policy liability credit: As used in this section the term "reserve and other policy liability credit" means an amount computed by multiplying the normal tax net income by a figure, to be determined and proclaimed by the Secretary for each taxable year based on such data with respect to life insurance companies for the preceding taxable year as the Secretary considers representative for such year in accordance with the following formula: The ratio, which (1) the aggregate of the sums of (A) 2 percent of the reserves for deferred dividends, (B) interest paid, and (C) the product of (i) the mean of the adjusted reserves at the beginning and end of the taxable year and (ii) the reserve earnings' rate bears to (2) the aggregate of the net incomes computed without any deduction for tax-free interest.

SEC. 203. Adjusted corporation surtax net income.

(a) Definition: For the purposes of section 201, the term "adjusted corporation surtax net income" means the corporation surtax net income minus the reserve and other policy liability credit.

(b) Reserve and other policy liability credit: As used in this section, the term "reserve and other policy liability credit" means an amount computed by multiplying the corporation surtax net income by the figure determined and proclaimed under section 202 (b).

The amendment was agreed to.

The next amendment was, on page 219, after line 14, to insert:

SEC. 201. Life-insurance companies.

(a) Imposition of tax:

(1) In general: There shall be levied, collected, and paid for each taxable year upon the adjusted normal-tax net income (as defined in section 202) and upon the adjusted

corporation surtax net income (as defined in section 203) of every life insurance company taxes at the rates provided in section 13 or section 14 (b) and in section 15 (b).

(2) Foreign life-insurance companies: A foreign life-insurance company carrying on a life-insurance business within the United States if with respect to its United States business it would qualify as a life-insurance company under subsection (b) shall be taxable in the same manner as a domestic life insurance company except that the determinations necessary for the purposes of this chapter shall be made on the basis of the income, disbursements, assets, and liabilities reported in the annual statement for the taxable year of the United States business of such company on the form approved for life insurance companies by the National Association of Insurance Commissioners.

(3) No United States insurance business: Foreign life-insurance companies not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.

(b) Definition of life-insurance company: When used in this chapter, the term "life-insurance company" means an insurance company which is engaged in the business of issuing life insurance and annuity contracts (either separately or combined with health and accident insurance), or noncancelable contracts of health and accident insurance, and which has life-insurance reserves (as defined in subsection (c) (2)) plus unearned premiums and unpaid losses on noncancelable life, health, or accident policies not included in life-insurance reserves, comprising more than 50 percent of its total reserves. For the purpose of this subsection, total reserves means life-insurance reserves, unearned premiums and unpaid losses not included in life-insurance reserves, and all other insurance reserves required by law. For taxable years beginning after December 31, 1943, a burial or funeral-benefit insurance company engaged directly in the manufacture of funeral supplies or the performance of funeral services shall not be taxable under this section but shall be taxable under section 204 or section 207.

(c) Other definitions: In the case of a life-insurance company—

(1) Gross income: The term "gross income" means the gross amount of income received during the taxable year from interest, dividends, and rents.

(2) Life insurance reserves: The term "life insurance reserves" means amounts which are computed or estimated on the basis of recognized mortality or morbidity tables and assumed rates of interest, and which are set aside to mature or liquidate, either by payment or reinsurance, future unaccrued claims arising from life insurance, annuity, and noncancelable health and accident insurance contracts (including life insurance or annuity contracts combined with noncancelable health and accident insurance) involving, at the time with respect to which the reserve is computed, life, health, or accident contingencies. Such life insurance reserves, except in the case of policies covering life, health, and accident insurance combined in one policy issued on the weekly premium payment plan, continuing for life and not subject to cancellation and except as hereinafter provided in the case of assessment life insurance, must also be required by law. In the case of an assessment life insurance company or association the term "life insurance reserves" includes sums actually deposited by such company or association with State or Territorial officers pursuant to law as guaranty or reserve funds, and any funds maintained under the charter or articles of incorporation of such company or association exclusively for the payment of claims arising under certificates of membership or

policies issued upon the assessment plan and not subject to any other use.

(3) Adjusted reserves: The term "adjusted reserves" means life insurance reserves plus 7 percent of that portion of such reserves as are computed on a preliminary term basis.

(4) Reserve earnings rate: The term "reserve earnings rate" means a rate computed by adding 2.1125 percent (65 percent of $3\frac{1}{4}$ percent) to 35 percent of the average rate of interest assumed in computing life insurance reserves. Such average rate shall be calculated by multiplying each assumed rate of interest by the mean of the amounts of the adjusted reserves computed at that rate at the beginning and end of the taxable year and dividing the sum of the products by the mean of the total adjusted reserves at the beginning and end of the taxable year.

(5) Reserve for deferred dividends: The term "reserve for deferred dividends" means sums held at the end of the taxable year as a reserve for dividends (other than dividends payable during the year following the taxable year) the payment of which is deferred for a period of not less than 5 years from the date of the policy contract.

(6) Interest paid: The term "interest paid" means—

(A) All interest paid within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter, and

(B) All amounts in the nature of interest, whether or not guaranteed, paid within the taxable year on insurance or annuity contracts (or contracts arising out of insurance or annuity contracts) which do not involve, at the time of payment, life, health, or accident contingencies.

(7) Net income: The term "net income" means the gross income less—

(A) Tax-free interest: The amount of interest received during the taxable year which under section 22 (b) (4) is excluded from gross income;

(B) Investment expenses: Investment expenses paid during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this subparagraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which net income computed without any deduction for investment expenses allowed by this subparagraph, or for tax-free interest allowed by subparagraph (A), exceeds 33 $\frac{1}{3}$ percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year;

(C) Real-estate expenses: Taxes and other expenses paid during the taxable year exclusively upon or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder of a company upon his interest as shareholder, which are paid by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes;

(D) Depreciation: A reasonable allowance, as provided in section 23 (1), for the ex-

haustion, wear and tear of property, including a reasonable allowance for obsolescence.

(d) Rental value of real estate: The deduction under subsection (c) (7) (C) or (c) (7) (D) of this section on account of any real estate owned and occupied in whole or in part by a life insurance company, shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

(e) Amortization of premium and accrual of discount: The gross income, the deduction provided in section 201 (c) (7) (A) and the credit allowed against net income in section 26 (a) shall each be decreased by the appropriate amortization of premium and increased by the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a life-insurance company. Such amortization and accrual shall be determined (1) in accordance with the method regularly employed by such company, if such method is reasonable, and (2) in all other cases, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary.

(f) Double deductions: Nothing in this section or in section 202 or 203 shall be construed to permit the same items to be twice deducted.

(g) Credits under section 26: For the purposes of this section, in computing normal tax net income and corporation surtax net income, the credits provided in section 26 shall be allowed in the manner and to the extent provided in sections 13 (a) and 15 (a)."

The amendment was agreed to.

The next amendment was, on page 227, in line 1, to insert:

Sec. 202. Adjusted normal-tax net income.

(a) Definition: For the purposes of section 201, the term "adjusted normal-tax net income" means the normal-tax net income minus the reserve and other policy liability credit provided in subsection (b) and plus the amount of the adjustment for certain reserves provided in subsection (c).

(b) Reserve and other policy liability credit: As used in this section the term "reserve and other policy liability credit" means an amount computed by multiplying the normal-tax net income by a figure, to be determined and proclaimed by the Secretary for each taxable year. This figure shall be based on such data with respect to life-insurance companies for the preceding taxable year as the Secretary considers representative and shall be computed in accordance with the following formula: The ratio which (1) the aggregate of the sums of (A) 2 percent of the reserves for deferred dividends, (B) interest paid, and (C) the product of (1) the mean of the adjusted reserves at the beginning and end of the taxable year and (11) the reserve earnings rate bears to (2) the aggregate of the excess of net incomes computed without any deduction for tax-free interest, over the adjustment for certain reserves provided in subsection (c).

(c) Adjustment for certain reserves: In the case of a life-insurance company writing contracts other than life insurance or annuity contracts (either separately or combined with noncancelable health and accident insurance), the term "adjustment for certain reserves" means an amount equal to 3 $\frac{1}{4}$ percent of the unearned premiums and unpaid losses on such other contracts which are not included in life-insurance reserves. For the purposes of this subsection such unearned premiums shall not be considered to be less than 25 percent of the net premiums written during the taxable year on such other contracts.

The amendment was agreed to.

The next amendment was, on page 228, after line 9, to insert:

Sec. 203. Adjusted corporation surtax net income.

(a) Definition: For the purposes of section 201, the term "adjusted corporation surtax net income" means the corporation surtax net income minus the reserve and other policy liability credit and plus the adjustment for certain reserves provided in section 202 (c).

(b) Reserve and other policy liability credit: As used in this section, the term "reserve and other policy liability credit" means an amount computed by multiplying the corporation surtax net income by the figure determined and proclaimed under section 202 (b).

The amendment was agreed to.

The next amendment was, on page 229, after line 1, to strike out "is amended by inserting after the word 'supplement' a comma and the words 'other than life insurance companies,'" and inserting "is repealed".

The amendment was agreed to.

The next amendment was, on page 229, after line 4, to strike out:

Sec. 146. Insurance companies other than life or mutual.

And insert:

Sec. 166. Insurance companies other than life or mutual and mutual marine insurance companies.

The amendment was agreed to.

The next amendment was, on page 229, line 18, after the word "company", to insert "and every mutual marine insurance company."

The amendment was agreed to.

The next amendment was, on page 229, line 23, after the word "mutual", to insert "and foreign mutual marine"; and in line 25, after the word "company", to insert "and a foreign mutual marine insurance company".

The amendment was agreed to.

The next amendment was, on page 230, line 19, after the word "company", to insert "and foreign mutual marine insurance companies".

The amendment was agreed to.

The next amendment was, on page 230, after line 23, to strike out:

(b) Section 204 (c) (relating to deductions) is amended by striking out the period at the end thereof and inserting a semicolon and the following new paragraphs:

"(11) The increase during the taxable year in surplus apportioned to policy holders in their capacity as such. Any decrease during the taxable year in surplus apportioned to policy holders in their capacity as such shall be included in gross income;

"(12) Dividends and similar distributions paid to policy holders in their capacity as such;

"(13) The deductions allowed under paragraphs (11) and (12), and the inclusion in gross income under paragraph (11), shall be computed under, and limited to the amount which would be allowed if the taxpayer were taxable under, section 207, except that in determining such amount 'investment income available to pay dividends and similar distributions' shall be an amount which bears the same ratio to the amount ascertained under section 207 (b) (7) as the mean of the sum of (A) unearned premiums and unpaid losses on participating insurance and (B) surplus apportioned to policy holders at the beginning and end of the taxable year

bears to the mean of the total ledger assets at the beginning and end of the taxable year."

And insert:

(b) Section 204 (b) (5) (relating to definition of premiums earned) is amended by striking out the semicolon at the end thereof and inserting a period and the following new sentence: "For the purposes of this subsection, unearned premiums shall include life insurance reserves, as defined in section 201 (c) (2), pertaining to the life, burial, or funeral insurance, or annuity business of an insurance company subject to the tax imposed by this section and not qualifying as a life insurance company under section 201 (b)."

(c) Section 204 (c) (relating to deductions) is amended as follows:

(1) by changing paragraph (5) to read:

"(5) Capital losses: Capital losses to the extent provided in section 117 plus losses from capital assets sold or exchanged in order to provide funds to meet abnormal insurance losses. Capital assets shall be considered as sold or exchanged in order to provide funds to meet abnormal insurance losses only to the extent that the gross receipts from their sale or exchange are not greater than the excess of insurance losses incurred during the taxable year over an amount computed by multiplying the premiums earned during the taxable year by the average of the ratios for the 5 preceding taxable years of insurance losses incurred to premiums earned. In the application of section 117 (e) for the purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

"(A) The corporation surtax net income (computed without regard to gains or losses from sales or exchanges of capital assets); or

"(B) Losses from the sale or exchange of capital assets sold or exchanged to provide funds to meet abnormal insurance losses."

And (2) by striking out the period at the end thereof and inserting a semicolon and the following new paragraph:

"(11) Dividends and similar distributions paid or declared to policyholders in their capacity as such. The term 'paid or declared' shall be construed according to the method of accounting regularly employed in keeping the books of the insurance company";

(d) Section 204 is amended by adding at the end thereof the following new subsection:

"(f) Credits under section 26: For the purposes of this section, in computing normal tax net income and corporation surtax net income, the credits provided in section 26 shall be allowed in the manner and to the extent provided in sections 13 (a) and 15 (a)."

The amendment was agreed to.

The next amendment was, on page 234, after line 2, to strike out:

Sec. 147. Mutual insurance companies other than life.

(a) Exempt companies: Section 101 (11) is amended to read as follows:

"(11) Mutual, hail, cyclone, casualty, liability, or fire insurance companies or associations (including interinsurers and reciprocal underwriters) writing insurance contracts solely on a mutual basis, if the mean of the ledger assets held at the beginning and end of the taxable year does not exceed \$100,000."

(b) Taxable companies: Section 207 (relating to taxation of mutual insurance companies other than life), is amended to read as follows:

"Sec. 207. Mutual insurance companies other than life.

"(a) Imposition of tax: There shall be levied, collected, and paid for each taxable

year upon the net income of every mutual insurance company (other than a life insurance company) the corporation surtax net income of which is over \$50,000, a tax computed as follows:

"(1) Normal tax: A normal tax on the normal-tax net income, computed at the rates provided in section 13, or 48 percent of the amount by which the normal-tax net income exceeds \$50,000, whichever is the lesser; plus

"(2) Surtax: A surtax on the corporation surtax net income, computed at the rates provided in section 15 (b), or 42 percent of the amount by which the corporation surtax net income exceeds \$50,000, whichever is the lesser.

"(3) Ledger assets over \$100,000 but less than \$150,000: If the mean of the ledger assets held at the beginning and end of the taxable year is over \$100,000 but less than \$150,000, the tax under this subsection shall be an amount which bears the same proportion to the sum of the lesser amounts ascertained under paragraphs (1) and (2) as the excess over \$100,000 of such mean of the ledger assets bears to \$50,000.

"(4) Normal tax and corporation surtax net income of foreign mutual insurance companies other than life: In the case of a foreign mutual insurance company (other than a life insurance company), the normal-tax net income shall be the net income from sources within the United States minus the credit provided in section 26 (a), the credit provided in section 26 (b), and the credit for income subject to the tax imposed by subchapter E of chapter 2 provided in section 26 (e), and the corporation surtax net income shall be the net income from sources within the United States minus the credit provided in section 26 (b) (computed by limiting such credit to 85 percent of the net income reduced by the credit for income subject to the tax imposed by subchapter E of chapter 2 provided in section 26 (e)).

"(5) No United States insurance business: Foreign mutual insurance companies (other than a life insurance company) not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.

"(b) Definition of income, etc.: In the case of an insurance company subject to the tax imposed by this section—

"(1) Gross income: 'Gross income' means the sum of (A) investment income as defined in paragraph (2), (B) underwriting income as defined in paragraph (4), and (C) all other items constituting gross income under section 22;

"(2) Investment income: 'Investment income' means the gross amount of income during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets to the extent provided in section 117, less (A) losses from sales or exchanges of capital assets to the extent provided in section 117, (B) investment expenses, (C) real estate expenses, (D) depreciation, and (E) interest paid;

"(3) Investment expenses, etc.: As used in this section the terms 'investment expenses,' 'real estate expenses,' 'depreciation,' and 'interest paid' shall have the same meaning, and shall be subject to the same limitations, as in section 201 (c) (7) (B), (C), and (D), section 201 (c) (6) (A), and section 201 (d) (relating to life insurance companies), but shall be computed as if the word 'paid' wherever it appears therein were 'paid or accrued';

"(4) Underwriting income: 'Underwriting income' means net premiums received during the taxable year on insurance contracts plus any decrease during such year in any

of the items specified in subparagraph (C) less:

"(A) Losses paid in excess of salvage and reinsurance recoverable;

"(B) Underwriting expenses and loss adjustment expenses paid or accrued;

"(C) The increase during the taxable year in any of the following items: (i) unearned premiums; (ii) unpaid losses; and (iii) surplus apportioned to policyholders;

"(D) Dividends and similar distributions paid to policyholders out of premium income and surplus apportioned to policyholders. Dividends and similar distributions paid to policyholders shall be considered to be paid out of premium income and surplus apportioned to policyholders only to the extent they exceed the sum of the investment income of the taxable year available to pay dividends and similar distributions in that year plus the investment income of the preceding taxable years (if beginning after December 31, 1941) available to pay such dividends and similar distributions in such years but not so used;

"(E) Net premiums received: 'Net premiums received during the taxable year on insurance contracts' means gross premiums (including premium deposits and assessments) written or received on insurance contracts less return premiums and premiums paid for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends upon the experience of the company or the discretion of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (4) (D);

"(6) Surplus apportioned to policyholders: "(A) in general: 'Surplus apportioned to policyholders' means such portion of the surplus of the company as is held for distribution to policyholders before the expiration of 5 years after the termination of their policies in equitable proportion to the amount of the surplus contributed by each policyholder or group of policyholders and includes amounts set aside for the payment of dividends and similar distributions to policyholders. The amount of surplus apportioned to policyholders shall in no case be considered to exceed an amount which would leave unapportioned surplus equal to or less than the unapportioned surplus as of the beginning of the first taxable year which begins after December 31, 1941;

"(B) Limitation on amount includible: For the purposes of subparagraph (A), no amount shall be included in surplus apportioned to policyholders unless, under the provisions of the insurance contract, or by the bylaws of the company, the distribution of such amount is specifically required and the distribution is not at the discretion of the directors of the company. The fact that the distribution of an amount can be withheld in order to comply with requirements of State law, or may be subjected to lien or assessment to meet abnormal loss or decline in market value of assets, shall not prevent the inclusion of such amount in surplus apportioned to policyholders. In no case shall an amount held for more than five years from the termination of the policy be included in surplus apportioned to policyholders;

"(C) Special rule for taxable years beginning after December 31, 1941, and before January 1, 1945: For the purposes of subparagraph (A), for taxable years beginning after December 31, 1941, and before January 1, 1945, an amount shall be included in surplus apportioned to policyholders if includible under subparagraph (B) or if payable to policyholders under the established normal practice of the company;

"(7) Investment income available to pay dividends and similar distributions: 'Investment income available to pay dividends and similar distributions' means investment

income for the taxable year (computed without regard to section 117 (d) and (e) less (A) an amount equal to 21 percent of the interest on obligations with respect to which a credit is allowable under section 26 (a) (relating to interest on certain obligations of the United States), and (B) an amount equal to 45 percent of so much of the investment income (computed with regard to section 117 (d) and (e)) as exceeds the sum of (i) the interest on obligations with respect to which a credit is allowable under section 26 (a), plus (ii) the interest on obligations described in section 22 (b) (4), plus (iii) the credit provided in section 26 (b) (relating to dividends received on stock of domestic corporations);

"(8) Net income: 'Net income' means the gross income as defined in paragraph (1) of this subsection less the following deductions:

"(A) All deductions as provided in section 23 to the extent not otherwise allowed;

"(B) The amount of the net operating loss deduction provided in section 23 (s) except that in computing such deduction the terms 'third preceding taxable year', 'second preceding taxable year', and 'first preceding taxable year' as used in section 122 shall not include any taxable year beginning before January 1, 1943; and

"(C) The amount of interest which under section 22 (b) (4) is excluded for the taxable year from gross income.

"(c) Deductions of foreign corporations: In the case of a foreign corporation the deductions allowed in this section shall be allowed to the extent provided in Supplement I in the case of a foreign corporation engaged in trade or business within the United States.

"(d) Double deductions: Nothing in this section shall be construed to permit the same item to be twice deducted."

The amendment was agreed to.

The next amendment was, on page 242, after line 8, to insert:

Sec. 167. Mutual insurance companies other than life or marine.

(a) Exempt companies: Section 101 (11) is amended to read as follows:

"(11) Mutual insurance companies or associations other than life or marine (including interinsurers and reciprocal underwriters) writing no insurance contracts other than mutual insurance contracts, if the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) does not exceed \$75,000;".

(b) Taxable companies: Section 207 (relating to taxation of mutual insurance companies other than life) is amended to read as follows:

"Sec. 207. Mutual insurance companies other than life or marine.

"(a) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the income of every mutual insurance company (other than a life or a marine insurance company) a tax computed under paragraph (1) or paragraph (2) whichever is the greater:

"(1) If the corporation surtax net income is over \$3,000 a tax computed as follows:

"(A) Normal tax: A normal tax on the normal-tax net income, computed at the rates provided in section 13 or section 14 (b), or 30 percent of the amount by which the normal-tax net income exceeds \$3,000, whichever is the lesser; plus

"(B) Surtax: A surtax on the corporation surtax net income, computed at the rates provided in section 15 (b), or 20 percent of the amount by which the corporation surtax net income exceeds \$3,000, whichever is the lesser.

"(2) If for the taxable year the gross amount of income from interest, dividends, rents, and net premiums, minus dividends to policy holders, minus the interest which under section 22 (b) (4) is excluded from gross income, exceeds \$75,000, a tax equal to the excess of—

"(A) 1 percent of the amount so computed, or 2 percent of the excess of the amount so computed over \$75,000, whichever is the lesser, over

"(B) the amount of the tax imposed under Subchapter E of Chapter 2.

This paragraph shall not apply with respect to which interinsurers or reciprocal underwriters.

"(3) Gross amount received over \$75,000 but less than \$125,000: If the gross amount received during the taxable year from interest, dividends, rents, and premiums (including deposits and assessments) is over \$75,000 but less than \$125,000, the amount ascertained under paragraph (1) and paragraph (2) (A) shall be an amount which bears the same proportion to the amount ascertained under such paragraph (1) or paragraph 2 (A), computed without reference to this paragraph, as the excess over \$75,000 of such gross amount received bears to \$50,000.

"(4) Foreign mutual insurance companies other than life or marine: In the case of a foreign mutual insurance company (other than a life or marine insurance company), the net income shall be the net income from sources within the United States and the gross amount of income from interest, dividends, rents, and net premiums shall be the amount of such income from sources within the United States.

"(5) No United States insurance business: Foreign mutual insurance companies (other than a life or marine insurance company) not carrying on an insurance business within the United States shall not be taxable under this section but shall be taxable as other foreign corporations.

"(b) Definition of income, etc.: In the case of an insurance company subject to the tax imposed by this section—

"(1) Gross investment income: 'Gross investment income' means the gross amount of income during the taxable year from interest, dividends, rents, and gains from sales or exchanges of capital assets to the extent provided in section 117;

"(2) Net premiums: 'Net premiums' means gross premiums (including deposits and assessments) written or received on insurance contracts during the taxable year less return premiums and premiums paid or incurred for reinsurance. Amounts returned where the amount is not fixed in the insurance contract but depends upon the experience of the company or the discretion of the management shall not be included in return premiums but shall be treated as dividends to policyholders under paragraph (3);

"(3) Dividends to policyholders: 'Dividends to policyholders' means dividends and similar distributions paid or declared to policyholders. The term 'paid or declared' shall be construed according to the method regularly employed in keeping the books of the insurance company;

"(4) Net income: The term 'net income' means the gross investment income less—

"(A) Tax-free interest: The amount of interest which under section 22 (b) (4) is excluded for the taxable year from gross income;

"(B) Investment expenses: Investment expenses paid or accrued during the taxable year. If any general expenses are in part assigned to or included in the investment expenses, the total deduction under this subparagraph shall not exceed one-fourth of 1 percent of the mean of the book value of the invested assets held at the beginning and end of the taxable year plus one-fourth of the amount by which net income computed

without any deduction for investment expenses allowed by this subparagraph, or for tax-free interest allowed by subsection (b) (4) (A), exceeds 3 3/4 percent of the book value of the mean of the invested assets held at the beginning and end of the taxable year;

"(C) Real-estate expenses: Taxes and other expenses paid or accrued during the taxable year exclusively upon or with respect to the real estate owned by the company, not including taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and not including any amount paid out for new buildings, or for permanent improvements or betterments made to increase the value of any property. The deduction allowed by this paragraph shall be allowed in the case of taxes imposed upon a shareholder of a company upon his interest as shareholder, which are paid or accrued by the company without reimbursement from the shareholder, but in such cases no deduction shall be allowed the shareholder for the amount of such taxes;

"(D) Depreciation: A reasonable allowance, as provided in section 23 (1), for the exhaustion, wear, and tear of property, including a reasonable allowance for obsolescence;

"(E) Interest paid or accrued: All interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation under this chapter.

"(F) Capital losses: Capital losses to the extent provided in section 117 plus losses from capital assets sold or exchanged in order to provide funds to meet abnormal insurance losses. Capital assets shall be considered as sold or exchanged in order to provide funds to meet abnormal insurance losses only to the extent that the gross receipts from their sale or exchange are not greater than the excess of insurance losses incurred during the taxable year over an amount computed by multiplying the premiums earned during the taxable year by the average of the ratios for the 5 preceding taxable years of insurance losses incurred to premiums earned. In the application of section 117 (e) for the purposes of this section, the net capital loss for the taxable year shall be the amount by which losses for such year from sales or exchanges of capital assets exceeds the sum of the gains from such sales or exchanges and whichever of the following amounts is the lesser:

"(i) The corporation surtax net income (computed without regard to gains or losses from sales or exchanges of capital assets); or

"(ii) Losses from the sale or exchange of capital assets sold or exchanged to provide funds to meet abnormal insurance losses.

"(c) Rental value of real estate: The deduction under subsection (b) (4) (C) or (b) (4) (D) of this section on account of any real estate owned and occupied in whole or in part by a mutual insurance company other than life or marine, shall be limited to an amount which bears the same ratio to such deduction (computed without regard to this subsection) as the rental value of the space not so occupied bears to the rental value of the entire property.

"(d) Amortization of premium and accrual of discount: The gross amount of income during the taxable year from interest, the deduction provided in subsection (b) (4) (A), and the credit allowed against net income in section 26 (a) shall each be decreased by the appropriate amortization of premium and increased by the appropriate accrual of discount attributable to the taxable year on bonds, notes, debentures, or other evidences of indebtedness held by a mutual insurance company other than life or marine. Such amortization and accrual shall be determined

(1) in accordance with the method regularly employed by such company, if such method is reasonable, and (2) in all other cases, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary.

"(e) Deductions of foreign corporations: In the case of a foreign corporation the deductions allowed in this section shall be allowed to the extent provided in Supplement I in the case of a foreign corporation engaged in trade or business within the United States.

"(f) Double deductions: Nothing in this section shall be construed to permit the same item to be twice deducted.

"(g) Credits under section 26: For the purposes of this section, in computing normal tax net income and corporation surtax net income, the credits provided in section 26 shall be allowed in the manner and to the extent provided in sections 13 (a) and 15 (a)."

Mr. LA FOLLETTE. Mr. President, I invite the attention of the Senator from Georgia to the amendment beginning on page 242, line 9, under the heading "Exempt Companies." Beginning with line 13 the language is:

(11) Mutual insurance companies or associations other than life or marine (including interinsurers and reciprocal underwriters) writing no insurance contracts other than mutual insurance contracts—

And so forth. I should like to suggest to the Senator from Georgia the wisdom of striking out the words "writing no insurance contracts other than mutual insurance contracts." It was called to our attention during the discussion in the subcommittee that this language is subject to confused interpretation. It has been brought to my attention and I have conferred with Mr. Stam, of the joint committee staff, about it, and he sees no objection to those words being stricken. I therefore move to strike out, in line 15, the words "writing no insurance contracts other than mutual insurance contracts."

Mr. GEORGE. Mr. President, I have no objection to striking those words. There is some doubt about the language there used expressing precisely what is intended. That would put that feature of it in conference. The whole section might be in conference anyway. I have no objection to striking out those words.

The PRESIDING OFFICER. The question is on agreeing to the amendment offered by the Senator from Wisconsin to the committee amendment on page 242, beginning in line 9.

The amendment to the amendment was agreed to.

The amendment as amended was agreed to.

The next amendment was, on page 250, line 19, after the word "section", to strike out "204 (c) (12), and section 207 (b) (4) (D), relating to insurance companies", and insert "204 (c) (11) and 207 (a) (2) and (b) (3) (where the reference is to dividends of insurance companies paid to policyholders))."

The amendment was agreed to.

The next amendment was, on page 251, after line 15, to insert:

Sec. 170. Period for filing petition extended in certain cases.

(a) Period extended: Section 272 (a) (1) (relating to period for filing petition with Board of Tax Appeals) is amended by in-

serting at the end thereof the following new sentence: "If the notice is addressed to a person outside the States of the Union and the District of Columbia, the period specified in this paragraph shall be 150 days in lieu of 90 days."

(b) Effective date: The amendment made by this section shall be applicable with respect to notices of deficiency mailed after the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on page 253, line 6, after the numeral "(3)" to strike out "limitations" and insert "exceptions."

The amendment was agreed to.

The next amendment was, on page 258, line 19, after the word "trust" to insert "or which is a common trust fund or similar fund excluded by section 3 (c) (3) of such act from the definition of 'investment company' and is not included in the definition of 'common trust fund' by section 169."

The amendment was agreed to.

The next amendment was, on page 259, after line 8, to strike out:

(3) An amount not less than 90 percent of its net income for the taxable year, computed without regard to net long-term and net short-term capital gains, is distributed to its shareholders as taxable dividends during the taxable year; and

The amendment was agreed to.

The next amendment was, on page 262, after line 16, to strike out:

(5) For such year it complies with all rules and regulations prescribed by the Commissioner, with the approval of the Secretary, for the purpose of ascertaining the actual ownership of its outstanding stock.

And insert:

(4) If it files with its return for the taxable year an election to be a regulated investment company or has made such election for a previous taxable year which began after December 31, 1941.

The amendment was agreed to.

The next amendment was, on page 263, at the beginning of line 1, to strike out:

Sec. 362. Tax on regulated investment companies.

(a) Supplement Q net income: For the purposes of this chapter the term "Supplement Q net income" means the adjusted net income, computed without the net operating loss deduction provided in section 23 (s), minus the basic surtax credit computed under section 27 (b) without the application of paragraphs (2) and (3). For the purposes of this subsection, the net income shall be computed without regard to section 47 (c).

(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the supplement Q net income of every regulated investment company a tax equal to 24 percent of the amount thereof.

Sec. 363. Surtax on regulated investment companies.

(a) Supplement Q surtax net income: For the purposes of this chapter the term "Supplement Q surtax net income" means the net income, computed without the net operating loss deduction provided in section 23 (s), minus the dividends paid during the taxable year increased by the consent dividends credit provided in section 28. For the purposes of this subsection the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the

purpose of the basic surtax credit provided in section 27. For the purposes of this subsection, the net income shall be computed without regard to section 47 (c).

(b) Imposition of tax: There shall be levied, collected, and paid for each taxable year upon the supplement Q surtax net income of every regulated investment company a surtax equal to 21 percent of the amount thereof.

Sec. 364. Alternative tax on capital gains.

For the purpose of computing the alternative tax under section 117 (c) (1), the 25 percent tax imposed upon the amount by which the net long-term capital gain exceeds the net short-term capital loss shall not be in excess of 25 percent of the supplement Q surtax net income.

The amendment was agreed to.

The next amendment was, on page 264, after line 13, to insert:

Sec. 362. Tax on regulated investment companies.

(a) Earnings and profits: The earnings and profits of a regulated investment company for any taxable year beginning after December 31, 1941 (but not its accumulated earnings and profits) shall not be reduced by any amount which is not allowable as a deduction in computing its net income for such taxable year.

(b) Method of taxation of companies and shareholders: In the case of a regulated investment company which distributes during the taxable year to its shareholders as taxable dividends other than capital gain dividends an amount not less than 90 percent of its net income for the taxable year computed without regard to net long-term and net short-term capital gains, and complies for such year with all rules and regulations prescribed by the Commissioner, with the approval of the Secretary, for the purpose of ascertaining the actual ownership of its outstanding stock:

(1) Its Supplement Q net income shall be its adjusted net income (computed by excluding the excess, if any, of the net long-term capital gain over the net short-term capital loss, and without the net operating loss deduction provided in section 23 (s)) minus the basic surtax credit (excluding capital gain dividends) computed under section 27 (b) without the application of paragraphs (2) and (3). For the purposes of this paragraph, the net income shall be computed without regard to section 47 (c).

(2) Its Supplement Q surtax net income shall be its net income (computed by excluding the excess, if any, of the net long-term capital gain over the net short-term capital loss, and without the net operating loss deduction provided in section 23 (s)) minus the dividends (other than capital gain dividends) paid during the taxable year increased by the consent dividends credit provided by section 28. For the purposes of this paragraph and paragraph (5) the amount of dividends paid shall be computed in the same manner as provided in subsections (d), (e), (f), (g), (h), and (i) of section 27 for the purpose of the basic surtax credit provided in section 27. For the purposes of this paragraph the net income shall be computed without regard to section 47 (c).

(3) There shall be levied, collected, and paid for each taxable year upon its Supplement Q net income a tax equal to 24 percent of the amount thereof.

(4) There shall be levied, collected, and paid for each taxable year upon its Supplement Q surtax net income a tax equal to 16 percent of the amount thereof.

(5) There shall be levied, collected, and paid for each taxable year a tax of 25 percent of the excess, if any, of the net long-term capital gain over the sum of the net short-term capital loss and the amount of capital gain dividends paid during the year.

(6) A capital gain dividend shall be treated by the shareholders as gains from the sale or exchange of capital assets held for more than 6 months.

(7) A capital gain dividend means any dividend or part thereof which is designated by the company as a capital gain dividend in a written notice mailed to its shareholders at any time prior to the expiration of 30 days after close of its taxable year. If the aggregate amount so designated with respect to a taxable year of the company is greater than the excess of the net long-term capital gain over the net short-term capital loss of the taxable year, the portion of each distribution which shall be a capital gain dividend shall be only that proportion of the amount so designated which such excess of the net long-term capital gain over the net short-term capital loss bears to the aggregate amount so designated.

The amendment was agreed to.

The next amendment was, on page 267, line 17, after the words "case of", to strike out "regulated investment companies, as defined in" and insert "a corporation subject to the tax imposed by"; and in line 18, after the words "Supplement Q", to insert "(relating to regulated investment companies)."

The amendment was agreed to.

The next amendment was, on page 267, after line 20, to insert:

(c) Retroactive provisions relating to earnings and profits: For any taxable year beginning after December 31, 1935, and before January 1, 1942, of a corporation which filed an income tax return as a mutual investment company, the earnings and profits of such corporation for such taxable year (but not its accumulated earnings and profits) shall not be reduced by any amount which is not allowable as a deduction in computing its net income for such taxable year; except that this subsection shall not result in earnings and profits of the taxable year in excess of the aggregate of the distributions made by the corporation to its shareholders during the taxable year exclusive of the amounts, if any, which the corporation advised its shareholders to be nontaxable for Federal income-tax purposes.

The amendment was agreed to.

The next amendment was, on page 269, line 18, after the word "redemption", to insert "(except a distribution having the effect of a dividend)."

The amendment was agreed to.

The next amendment was, on page 270, line 23, after the numerals "79", to insert "k."

The amendment was agreed to.

The next amendment was, on page 273, line 16, after the numerals "79", to insert "k."

The amendment was agreed to.

The next amendment was, on page 274, after line 16, to insert:

(h) Basis: Section 113 (a) (17) is amended to read as follows:

"(17) Property acquired in connection with exchanges and distributions in obedience to certain orders of the Securities and Exchange Commission: If the property was acquired in a taxable year beginning before January 1, 1942, in any manner described in section 372 prior to its amendment by the Revenue Act of 1942, the basis shall be that prescribed in such section (prior to its amendment by such act) with respect to such property. If the property was acquired in a taxable year beginning after December 31, 1941, in any manner described in section 372 (other than subsection (a) (2)) after its amendment

by such act, the basis shall be that prescribed in such section (after its amendment by such act) with respect to such property."

The amendment was agreed to.

The next amendment was, on page 275, after line 10, to strike out:

Sec. 153. Collection of tax at source.

(a) Requirement of collection at source: The Internal Revenue Code is amended by inserting after Supplement T of Chapter 1 the following new supplement:

"SUPPLEMENT U—COLLECTION OF TAX AT SOURCE ON DIVIDENDS, BOND INTEREST, AND WAGES

"Sec. 425. Definitions.

"As used in this supplement—

"(a) Pay roll period: The term 'pay roll period' means a period for which a payment of remuneration is ordinarily made to the employee by his employer.

"(b) Wages: The term 'wages' means all remuneration for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid (1) for services performed by a member of the military or naval forces of the United States, other than pensions and retired pay, (2) for agricultural labor (as defined in section 1426 (h)), (3) for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority, (4) for casual labor not in the course of the employer's trade or business, (5) for services as an employee of a nonresident alien individual, foreign partnership, or foreign corporation, if such individual, partnership, or corporation is not engaged in trade or business in the United States, (6) for services as an employee of a foreign government or any wholly owned instrumentality thereof, or (7) for services performed as an employee while outside the United States (as defined in section 3797 (a) (9)), unless the major part of the services performed during the calendar year by such employee for his employer are performed within the United States.

"(c) Recipient: The term 'recipient of the income' means any person entitled to credit against the tax imposed by this chapter, the tax withheld and collected at the source under this supplement upon the dividends, bond interest, or wages of such person.

"(d) Bond: The term 'bond' means any bond, debenture, note, or certificate or other evidence of indebtedness issued by any corporation (including those issued by a government or political subdivision thereof, or any agency or instrumentality of any one or more of the foregoing), with interest coupons or in registered form; but shall not include any such evidence of indebtedness issued by a foreign government or any wholly owned instrumentality thereof or issued by a foreign corporation which is not engaged in trade or business in the United States.

"(e) Dividends: The term 'dividends' shall not include any dividends paid by a foreign corporation which is not engaged in trade or business in the United States.

"(f) Withholding agent: The term 'withholding agent' means any person required to withhold, collect, and pay the tax under section 426.

"(g) Employee: The term 'employee' includes (in addition to any individual who is a servant under the law of master and servant) any individual who performs service, of whatever nature, for a person (including the United States, a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing), unless the service is performed by the individual in pursuit of his own independently established business. The term 'employee' also includes an officer of a corporation.

"(h) Employer: The term 'employer' includes any person for whom an individual performs any service, of whatever nature, as the employee of such person.

"Sec. 426. Tax collected at source.

"(a) Requirement of withholding: There shall be withheld, collected, and paid (except in the cases provided for in section 143) upon all dividends, bond interest, and wages of every person, to the extent that such dividends, interest, and wages are includible in gross income, a tax equal to 10 percent of (1) such dividends and interest, and (2) the excess of each payment of such wages over the withholding deduction allowable under this supplement; except that, for the calendar year 1943, such tax shall be 5 percent. As used in this subsection, the term 'person' shall not include any person (other than a partnership or a common trust fund) exempt from tax under this chapter or a corporation.

"(b) Withholding deduction:

"(1) In computing the tax required to be withheld from wages under subsection (a), there shall be allowed as a deduction against the wages paid for each pay-roll period an amount determined in accordance with the following schedule (which is based upon the credits allowed in section 25 (b) plus 10 percent of such credits):

"Pay-roll period	Single person (not head of family)	Married person or head of family	Each dependent
Weekly.....	\$11.00	\$26.00	\$8.50
Biweekly.....	22.00	52.00	17.00
Semi-monthly.....	23.00	55.00	18.00
Monthly.....	46.00	110.00	36.00
Quarterly.....	138.00	330.00	108.00
Semi-annually.....	276.00	660.00	216.00
Annually.....	552.00	1,320.00	432.00

"(2) If a pay-roll period in respect of any wages is less than 1 week, the excess of the aggregate of the wages paid during each calendar week over the deduction allowed by this subsection for a weekly pay-roll period shall be used in computing the tax required to be withheld.

"(3) If a pay-roll period in respect of any wages, or any other period with respect to which wages are paid, is not otherwise specifically provided for in this subsection, the deduction allowable against each payment of such wages shall be the deduction allowable in the case of an annual pay-roll period divided by 365 and multiplied by the number of days in such period, including Sundays and holidays.

"(4) In any case in which wages are paid without regard to any pay-roll period or other period, the deduction allowable against each payment of such wages shall be the deduction allowable in the case of an annual pay-roll period divided by 365 and multiplied by the number of days (including Sundays and holidays) which have elapsed since the last payment of such wages during the calendar year or January 1 of such year, whichever last occurred.

"(5) The deduction allowable under this subsection in respect of any individual for any 12-month period shall not exceed the total deduction which would have been allowable under paragraph (1) if the only pay-roll period of such individual had been a weekly pay-roll period.

(c) Withholding where owner or amount is unknown: In any case in which the withholding agent is unable to determine the owner of the security or obligation in respect of which any dividend or bond interest is payable or the amount of any dividend, bond interest, or wages specified in subsection (a) which is includible in gross income, the Commissioner, under regulations prescribed by him with the approval of the Secretary, may authorize the tax to be withheld, collected, and paid.

"(d) Tax paid by recipient: If any tax required under this supplement to be withheld and collected is paid by the recipient of the income, it shall not be re-collected from the withholding agent; but such payment shall in no case relieve the withholding agent from liability for interest or additions to the tax otherwise applicable in respect of any tax imposed by this chapter.

"(e) Exempt individuals: No tax shall be withheld or collected pursuant to this supplement in the case of dividends or bond interest of an individual if there is filed with the withholding agent a certificate in such form and at such times as may be required under regulations prescribed by the Commissioner, with the approval of the Secretary, stating that the gross income of such individual (or, if such individual is a married person, the gross income of such individual and his spouse) for the taxable year in which such dividends or interest are includible in gross income will not exceed the credits allowed in section 25 (b).

"(f) Credit for tax withheld at source: The tax withheld and collected under this supplement shall not be allowed as a deduction either to the withholding agent or to the recipient of the income in computing net income; but the amount of the tax so withheld and collected shall be credited against the tax imposed by this chapter upon the recipient of the income.

"(g) Refunds: Where there has been an overpayment of tax under this section, any refund or credit made under the provisions of section 322 shall be made to the recipient of the income in respect of whom the tax was withheld; but, in any case in which such tax was not so withheld by the withholding agent, such refund or credit shall be made to the withholding agent.

"(h) Included and excluded wages: If the remuneration paid by an employer to an employee for services performed during one-half or more of any pay-roll period constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such pay-roll period does not constitute wages, then none of the remuneration paid by such employer to such employee for such period shall be deemed to be wages.

"Sec. 427. Rules for determination of withholding deduction.

"In determining the withholding deduction under section 426 (b) —

"(a) Definitions:

"(1) 'Married person' means a married person living with husband or wife.

"(2) 'Dependent' means a person (other than husband or wife) dependent upon and receiving his chief support from the taxpayer if such dependent person is under 18 years of age or is incapable of self support because mentally or physically defective, excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B).

"(b) Determination of status: The determination of whether a person is living with husband or wife, is a head of a family, or has a dependent, shall be made as of the first day of any pay-roll period of such person in respect of which the withholding and collection of the tax is required under this supplement. Any change of status affecting the withholding deduction of such person shall take effect as of the first day of the first pay-roll period beginning after such change.

"(c) Married persons not living with husband or wife: A married person not a head of a family and not living with husband or wife shall be treated as a single person.

"(d) Husband and wife both employed: In the case of married persons, if both husband and wife receive wages each spouse shall be entitled to one-half of the deduction al-

lowed a married person, except that if one of such spouses receives wages for casual services, no deduction shall be allowed such spouse, and the other spouse shall be entitled to the deduction allowed a married person.

"(c) Status unknown: Any person who fails to submit the information required by section 431 (relating to his status for the purpose of the withholding deduction) shall be treated as a single person.

"Sec. 428. Withholding agent.

"(a) Collection of tax: The tax required to be withheld by section 426 shall be collected by the person having control of the payment of such dividends, bond interest, or wages, by deducting such amount from such dividends, interest, or wages, as the case may be, as and when paid. As used in this subsection, the term 'person' includes officers and employees of the United States, or of a State, Territory, or any political subdivision thereof, or of the District of Columbia, or any agency or instrumentality of any one or more of the foregoing.

"(b) Indemnification of withholding agent: Every person required to withhold and collect any tax under this supplement shall be liable for the payment of such tax, and shall not be liable to any person for the amount of any such payment.

"(c) Adjustments: If more or less than the correct amount of tax is withheld or paid for any quarter in any calendar year, proper adjustments, with respect both to the tax withheld or the tax paid, may be made in any subsequent quarter of such calendar year, without interest, in such manner and at such times as may be prescribed by regulations made by the Commissioner, with the approval of the Secretary.

"Sec. 429. Return and payment by withholding agent.

"Returns, payment, and records: In lieu of any time prescribed for the return and payment of the tax imposed by this chapter, every person required to withhold and collect any tax under section 426 shall make a return and pay such tax on or before the last day of the month following the close of each quarter of each calendar year. Every such person shall keep such records and render under oath such statements with respect to the tax so withheld and collected as may be prescribed by the Commissioner, with the approval of the Secretary.

"Sec. 430. Receipts.

"(a) Wages:

"(1) General rule: Every employer shall furnish to each employee —

"(A) In respect of his period of employment during the calendar year, on or before February 15 of the succeeding year, or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of wages is made to him, and

"(B) With each payment of wages made to such employee during the calendar year in respect of which tax is withheld, a written statement showing the period of employment covered by the statement, the wages paid by the employer to such employee for such period, and the amount of the tax withheld and collected under this supplement in respect of such wages.

"(2) Employers of eight or more: Notwithstanding the provisions of paragraph (1), if, under regulations prescribed by the Commissioner with the approval of the Secretary, the nature and experience of the business is such that an employer may reasonably be expected to employ on each of some 20 days during the calendar year, each day being in a different calendar week, eight or more individuals for some portion of the day (whether or not at the same moment of time) such employer shall furnish each employee in respect of his period of employment during such calendar year, on or before February 15

of the succeeding year, or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of wages is made to him, a written statement showing the period of employment covered by the statement, the wages paid by the employer to such employee for such period, and the amount of the tax withheld and collected in respect of such wages.

"(b) Dividends and bond interest: Every person required to withhold and collect a tax in respect of dividends or bond interest shall furnish a statement to the person to whom such dividends or bond interest are paid, at the time payment is made, showing the amount of the tax so withheld and collected.

"(c) Regulations: The statements required to be furnished by this section shall be furnished at such other times, shall contain such other information, and shall be in such form as the Commissioner with the approval of the Secretary may by regulations prescribe.

"Sec. 431. Withholding deduction certificates. "On or before the close of the first payroll period—

"(1) In respect of which the withholding and collection of the tax is required under this supplement,

"(2) In each calendar year thereafter, and

"(3) After the commencement of employment with a different employer, every employee shall furnish to his employer signed statements relating to his status for the purpose of computing his withholding deduction. Such statements shall also be furnished by the employee on or before the close of any payroll period during which a change in his status occurs. Such statements shall be made at such other times, shall be made on such forms, and shall contain such information as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"Sec. 432. Penalties.

"(a) Penalties applicable to withholding agents—

"(1) Penalties for fraudulent receipt or failure to furnish receipt: In lieu of any other penalty provided by law (except the penalty provided by paragraph (2) of this subsection), any person required under the provisions of section 430 to furnish a receipt in respect of tax withheld pursuant to this supplement who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and showing the information required under section 430, or regulations prescribed thereunder, shall for each such failure, upon conviction thereof, be fined not more than \$1,000, or imprisoned for not more than 1 year, or both.

"(2) Additional penalty: In addition to the penalty provided by paragraph (1) of this subsection, any person required under the provisions of section 430 to furnish a receipt in respect of tax withheld pursuant to this supplement who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and showing the information required under section 430, or regulations prescribed thereunder, shall for each such failure be subject to a civil penalty of not more than \$50.

"(3) Failure of withholding agent to file return: In case of any failure to make and file return required by this supplement, within the time prescribed by law or prescribed by the Commissioner in pursuance of law, unless it is shown that such failure is due to reasonable cause and not due to willful neglect, the addition to the tax provided for in section 291 shall be not less than \$5.

"(b) Penalties applicable to recipients:

"(1) Penalty for fraudulent withholding deduction certificate or failure to furnish

withholding deduction certificate: Any individual required to supply information to his employer under the provisions of section 431, or regulations prescribed under the authority thereof, who willfully supplies false or fraudulent information, or who willfully fails to supply information relating to a change of status which would decrease the withholding deduction, shall, in lieu of the penalty provided in section 145 (a), upon conviction thereof, be fined not more than \$500, or imprisoned for not more than 1 year, or both.

"(2) Penalty for fraudulent exemption certificate: Any individual who willfully supplies false or fraudulent information in an exemption certificate filed pursuant to the provisions of section 426 (e), or regulations prescribed under the authority thereof, shall, in lieu of the penalty provided in section 145 (a), upon conviction thereof, be fined not more than \$500, or imprisoned for not more than 1 year, or both."

(b) Special classes of taxpayers: Section 4 is amended by adding at the end thereof the following new subsection:

"(m) Withholding of tax at source on dividends, bond interest, and wages: Supplement U."

(c) Credit for taxes withheld at source: Section 32 is amended to read as follows: "Sec. 32. Taxes withheld at source.

"The amount of tax withheld at the source under section 143, 144, or 426 shall be allowed as a credit against the tax."

(d) Payment of tax in installments: Section 56 (b) is amended to read as follows:

"(b) Installment payments:

"(1) Corporations: In the case of a corporation, the taxpayer may elect to pay the tax in four equal installments, in which event the first installment shall be paid on the date prescribed for the payment of the tax by the taxpayer, the second installment shall be paid on the fifteenth day of the third month, the third installment on the fifteenth day of the sixth month, and the fourth installment on the fifteenth day of the ninth month, after such date.

"(2) Individuals: In the case of a taxpayer other than a corporation, the taxpayer may elect to pay the tax in four installments, in which event the first installment shall be in an amount equal to 10 percent of his surtax net income plus one-fourth of the amount by which the tax imposed by this chapter (computed without regard to the credit provided in section 32) exceeds such 10 percent of his surtax net income. The amount of the first installment as computed hereunder shall be reduced by the amount of the credit provided in section 32; and, in case such credit is equal to or in excess of the amount of the first installment as computed hereunder but is less than the tax imposed by this chapter (computed without regard to such credit), such credit shall constitute the first installment. The first installment shall be paid on the date prescribed for the payment of the tax by the taxpayer, and the balance of the tax in three equal installments, in which case the second installment shall be paid on the fifteenth day of the third month, the third installment on the fifteenth day of the sixth month, and the fourth installment on the fifteenth day of the ninth month, after such date.

"(3) Special rule: In the case of a taxable year beginning after December 31, 1942, and before January 1, 1944, the first installment shall be in an amount (in lieu of the amount provided in paragraph (2) of this subsection) equal to 5 percent of his surtax net income plus one-fourth of the amount by which the tax imposed by this chapter (computed without regard to the credit provided in section 32) exceeds such 5 percent of his surtax net income.

"(4) Supplement T taxpayer: In the case of an individual taxpayer who makes his return and pays his tax under Supplement T, the taxpayer may elect to pay the tax in four equal installments, in which event each installment shall be in an amount equal to one-fourth of the excess of the tax imposed by this chapter over the credit provided in section 32. The first installment shall be paid on the date prescribed for the payment of the tax by the taxpayer, the second installment shall be paid on the fifteenth day of the third month, the third installment on the fifteenth day of the sixth month, and the fourth installment on the fifteenth day of the ninth month, after such date.

"(5) Nonpayment of installment: If any installment is not paid on or before the date fixed for its payment, the whole amount of the tax unpaid shall be paid upon notice and demand from the collector."

(e) Foreign tax credit: Section 131 is amended by adding at the end thereof the following new subsection:

"(h) Tax withheld at source: For the purposes of this supplement the tax imposed by this chapter shall be the tax computed without regard to the credit provided in section 32 (tax withheld at source)."

(f) Estates and trusts: Supplement E of chapter 1 is amended by adding at the end thereof the following new section:

"Sec. 173. Tax withheld at source:

"The amount allowed as a credit by section 32, for tax withheld at the source, shall be apportioned between the trust or estate and the beneficiaries under regulations prescribed by the Commissioner with the approval of the Secretary. The amount of such credit shall not be allowed to a common trust fund but a proportionate share thereof shall be allowed to each participant in such fund."

(g) Partnerships: Supplement F of Chapter 1 is amended by adding at the end thereof the following new section:

"Sec. 191. Tax withheld at source.

"The amount allowed as a credit by section 32, for tax withheld at the source, shall not be allowed to a partnership, but a proportionate share of such credit shall be allowed to each partner."

(h) Refunds and credits:

(1) Section 322 (a) is amended to read as follows: "(a) Authorization.

"(1) Overpayment: Where there has been an overpayment of any tax imposed by this chapter, the amount of such overpayment shall be credited against any income, war profits, or excess-profits tax or installment thereof then due from the taxpayer, and any balance shall be refunded immediately to the taxpayer.

"(2) Excessive withholding: Where the amount of the tax withheld at the source under Supplement U exceeds the tax imposed by this chapter (after allowance of the credit provided by section 31 and the credit provided by section 32 for tax withheld at source under section 143), the amount of such excess shall be credited against any income tax or installment thereof then due from the taxpayer, and any balance thereof shall be refunded immediately to the taxpayer.

"(3) Refunds of \$50 or less: If the receipts provided for in section 430 are filed with the individual's return under this chapter, and the amount of the tax as shown by such receipts to have been withheld and collected at the source exceeds the tax shown on the return, computed without regard to the credit allowable for the tax withheld and collected under Supplement U and adjusted for any errors appearing on the face of the return, the amount of such excess shall be refunded immediately if it does not exceed \$50: *Provided, however*, That if such refund is made within 6 months after (A) the last day prescribed by law for the filing of such

return, or (B) the fifteenth day of the third month following the close of such individual's taxable year, whichever is later, no interest shall be allowed."

(2) Section 322 (e) is amended to read as follows:

"(e) Presumption as to payment: For the purposes of this section, any tax actually withheld and collected at the source under supplement U shall, in respect of the recipient of the income (as defined in section 425 (c)), be deemed to have been paid by him on the fifteenth day of the third month following the close of his taxable year in which such tax was so withheld and collected.

"(f) Tax withheld at source: For refund or credit in case of withholding agent, see sections 143 (f) and 426 (g)."

(i) Credits against supplement T tax: Section 403 is amended to read as follows: "Sec. 403. Credit against tax not allowed."

"Section 31 (relating to foreign tax credit) shall not apply with respect to the tax imposed by this supplement."

(j) Prohibition of administrative review of Commissioner's decision: Section 3790 is amended by inserting "(a)" before the first paragraph and by adding the following new subsection:

"(b) The allowance by the Commissioner under the provisions of section 322 (a) (3) of a refund of tax withheld at source (including interest thereon, if any), shall not be subject to review by any other administrative or accounting officer, employee, or agent of the United States."

(k) Cross references:

(1) Payment of tax: Section 56 (f) is amended to read as follows:

"(f) Tax withheld at source: For requirement of withholding tax at source, see sections 143, 144, and supplement U."

(2) Penalties: Section 145 (d) is amended by inserting "(1)" before the first paragraph and by adding the following new paragraph:

"(2) For additional penalties for fraudulent receipts or failure to furnish receipts required by section 430, for fraudulent withholding deduction certificates or failure to furnish such certificates as required by section 431, and for fraudulent exemption certificates filed under section 426 (f), see section 432."

(3) Minimum penalty for failure to file return: Section 291 is amended by inserting "(a)" before the first paragraph and by adding the following new subsection:

"(b) For minimum addition to the tax for failure of withholding agent to make and file return required by Supplement U, see section 432 (a) (3)."

(4) Interest on overpayments: Section 3771 is amended by adding at the end thereof the following new subsection:

"(e) Tax withheld at source: For date of payment in respect of tax withheld at source under Supplement U, see section 322 (e)."

(i) Effective date: The provisions of this section, except subsections (d) and (i), shall take effect on January 1, 1943, and shall be applicable to all dividends, bond interest, and wages (as defined in Supplement U) paid on or after such date; and the provisions of subsections (d) and (i) shall take effect on January 1, 1944.

The amendment was agreed to.

The next amendment was, on page 298, at the beginning of line 1, to insert:

Sec. 174. Temporary income tax on individuals.

(a) The Internal Revenue Code is amended by inserting at the end of Chapter 1 the following new subchapter:

"SUBCHAPTER D—VICTORY TAX ON INDIVIDUALS

"PART I—RATE AND COMPUTATION OF TAX

"Sec. 450. Imposition of tax.

"There shall be levied, collected, and paid for each taxable year beginning after Decem-

ber 31, 1942, a victory tax of 5 percent upon the victory tax net income of every individual (other than a nonresident alien subject to the tax imposed by section 211 (a)).

"Sec. 451. Victory tax net income.

"(a) Definition: The term 'victory tax net income' in the case of any taxable year means (except as provided in subsection (c)) the gross income (other than gains from the sale or exchange of capital assets as defined in section 117 and other than interest allowed as a credit against net income under section 25 (a) (1) and (2)) for such year minus the sum of the following deductions:

"(1) Expenses: The expenses allowable as a deduction by section 23 (a) (1) and (2).

"(2) Interest: Interest allowable as a deduction by section 23 (b), if the indebtedness in respect of which such interest is allowed was incurred in carrying on any trade or business, or was incurred for the production or collection of income, or for the management, conservation, or maintenance of property held for the production of income.

"(3) Taxes: Amounts allowable as a deduction by section 23 (c), to the extent such amounts are paid or incurred in connection with the carrying on of a trade or business, or in connection with property used in the trade or business, or in connection with property held for the production of income.

"(4) Losses: Losses (other than losses from the sale or exchange of capital assets allowable as a deduction under section 23 (e) (1), subject to the limitation provided in section 23 (h).

"(5) Bad debts.—The amount allowable by section 23 (k) (1).

"(6) Depreciation.—The amount allowable by section 23 (l).

"(7) Depletion.—The amount allowable by section 23 (m) and (n).

"(8) Pension trusts.—The amount allowable by section 23 (p).

"(9) Net operating loss: The net operating loss deduction allowable by section 23 (s).

"(10) Amortization: The amount allowable by section 23 (t).

"(11) Alimony: The amount allowable by section 23 (u).

"(12) Special deduction: The amount allowable by section 120.

"(13) Estates and trusts: In the case of an estate or trust, the amount allowable by subsection (a) of section 162 in addition to the amounts allowable by subsections (b) and (c) of such section.

"(b) Items not deductible: The deductions allowed by subsection (a) shall be subject to the limitations contained in section 24 and Supplement J and, in the case of nonresident aliens subject to the victory tax, shall be subject to the limitations contained in Supplement H.

"(c) Supplement T taxpayer: If for any taxable year a taxpayer makes his return and pays his tax under Supplement T, the term 'victory tax net income' means the gross income for such year.

"(d) Basis for determining loss: The basis for determining the amount of deduction for losses sustained, to be allowed under paragraph (4) of subsection (a), and for bad debts, to be allowed under paragraph (5) of subsection (a), shall be the adjusted basis provided in section 113 (b) for determining the loss from the sale or other disposition of property.

"(e) Rule applicable to participants in a common trust fund: In the case of a participant in a common trust fund, he shall in respect of the common trust fund income include in computing his victory tax net income, whether or not distributed and whether or not distributable, only his proportionate share of the ordinary net income or the ordinary net loss of the common trust fund, computed as provided in section 169 (d).

"(f) Rule applicable to partners: In the case of an individual carrying on business

in partnership, he shall in respect of the partnership income include in computing his victory tax net income, whether or not distribution is made to him, only his distributive share of the ordinary net income or the ordinary net loss of the partnership, computed as provided in section 183 (b).

"Sec. 452. Specific exemption.

"In the case of every individual there shall be allowed as a credit against the victory tax net income a specific exemption of \$624. In the case of a husband and wife filing a joint return under section 51 (b), if the victory tax net income of one spouse is less than \$624, the aggregate specific exemption of both spouses shall be limited to \$624 plus the victory tax net income of such spouse.

"Sec. 453. Credit against victory tax.

"(a) Allowance of credit: There shall be allowed as a credit against the victory tax for each taxable year:

"(1) The amount paid by the taxpayer during the taxable year as premiums on life insurance, in force on September 1, 1942, upon his own life, or upon the life of his spouse, or upon the life or any dependent of the taxpayer specified in section 25 (b) (2) (A); and the amount paid during the taxable year as premiums on life insurance which is a renewal or conversion of such life insurance in force on September 1, 1942, to the extent that such premiums do not exceed the premiums payable on such life insurance in force on September 1, 1942.

"(2) The amount by which the smallest amount of indebtedness of the taxpayer outstanding at any time during the period beginning September 1, 1942, and ending with the close of the preceding taxable year, exceeds the amount of indebtedness of the taxpayer outstanding at the close of the taxable year.

"(3) The amount by which the amount of obligations of the United States owned by the taxpayer on the last day of the taxable year exceeds the greater of (A) the amount of such obligations owned by the taxpayer on December 31, 1942, or (B) the highest amount of such obligations owned by the taxpayer on the last day of any preceding taxable year ending after December 31, 1942. As used in this paragraph (i) the term 'owned by the taxpayer' shall include the amount of the obligations owned solely by the taxpayer and one-half of the amount of the obligations owned jointly by the taxpayer with another, but shall not include such obligations acquired by the taxpayer by gift, or inheritance, or otherwise than by purchase; (ii) the term 'obligations of the United States' means such obligations of the United States as the Secretary may by regulations prescribe, and as are purchased in such manner and under such terms and conditions as he may specify; and (iii) the term 'amount of obligations of the United States' means the amount paid for such obligations.

"(b) Limitation on credit: The amount of such credit for the taxable year shall not exceed the amount of the post-war credit or refund allowed by section 454 for such taxable year.

"Sec. 454. Post-war credit or refund of victory tax.

"(a) Allowance of credit: As soon as practicable after date of cessation of hostilities in the present war (as defined in section 475 (b)), the following amount of the victory tax paid for each taxable year beginning after December 31, 1942, shall be credited against any income tax or installment thereof then due from the taxpayer, and any balance shall be refunded immediately to the taxpayer:

"(1) In the case of a single person or a married person not living with husband or wife, 25 percent of the victory tax or \$500, whichever is the lesser.

"(2) In the case of the head of a family, 40 percent of the victory tax or \$1,000, whichever is the lesser. In the case of a married

person living with husband or wife where separate returns are filed by each spouse, 40 percent of the victory tax or \$500, whichever is the lesser. In the case of a married person living with husband or wife where a separate return is filed by one spouse and no return is filed by the other spouse, or in the case of a husband and wife filing a joint return under section 51 (b), only one such credit shall be allowed and such credit shall not exceed 40 percent of the victory tax or \$1,000, whichever is the lesser.

"(3) For each dependent specified in section 25 (b), excluding as a dependent, in the case of a head of a family, one who would be excluded under section 25 (b) (2) (B), 2 percent of the victory tax or \$100, whichever is the lesser.

"(b) Change of status: If for any taxable year the status of the taxpayer (other than a taxpayer who makes his return and pays his tax under Supplement T) with respect to his marital relationship or with respect to his dependents, changed during the taxable year, the amount of the credit or refund provided by this section for such taxable year shall be apportioned, under rules and regulations prescribed by the Commissioner with the approval of the Secretary, in accordance with the number of months before and after such change. For the purpose of such apportionment a fractional part of a month shall be disregarded unless it amounts to more than half a month in which case it shall be considered as a month.

"(c) Status of Supplement T taxpayer: If for any taxable year a taxpayer makes his return and pays his tax under Supplement T, for the purpose of the credit or refund provided by this section, his status for such year with respect to his marital relationship or with respect to his dependents shall be determined in accordance with the provisions of section 401.

"(d) Period of limitation: No post-war credit or refund of any part of the victory tax provided in this section shall be allowed or made after 7 years from the date of cessation of hostilities in the present war, unless claim for credit or refund is filed before the expiration of such date. No interest shall be allowed on such credits or refunds.

"(e) Limitation of credit: The post-war credit or refund allowed by this section shall be reduced by the amount of any credit allowed under section 453.

"Sec. 455. Returns.

"(a) Individual returns: Every individual having a gross income in excess of \$624 for the taxable year shall make, under regulations prescribed by the Commissioner with the approval of the Secretary, a return, which shall contain or be verified by a written declaration that it is made under the penalties of perjury, stating specifically the items of his gross income and the deductions and credits allowed under this subchapter.

"(b) Fiduciary returns: Every fiduciary (except a receiver appointed by authority of law in possession of part only of the property of an individual) shall make, under regulations prescribed by the Commissioner with the approval of the Secretary, a return under oath, for any individual, estate, or trust for which he acts, if the gross income of such individual, estate, or trust is in excess of \$624 for the taxable year, stating specifically the items of gross income and the deductions and credits allowed under this subchapter. The provisions of section 142 (b) shall be applicable with respect to any return required to be made under this subsection.

"Sec. 456. Limitation on tax.

"The tax imposed by section 450 (victory tax), computed without regard to the credits provided in sections 453, 454, and 466 (f), shall not exceed the excess of 90 percent of the net income of the taxpayer for the tax-

able year over the tax imposed by sections 11 (normal tax) and 12 (surtax), computed without regard to the credits provided in sections 31, 32, and 466 (f).

"PART II—COLLECTION OF TAX AT SOURCE ON WAGES

"Sec. 465. Definitions.

"As used in this part—

"(a) Pay-roll period: The term 'pay-roll period' means a period for which a payment of wages is ordinarily made to the employee by his employer.

"(b) Wages: The term 'wages' means all remuneration for services performed by an employee for his employer, including the cash value of all remuneration paid in any medium other than cash; except that such term shall not include remuneration paid (1) for services performed as a member of the military or naval forces of the United States, other than pensions and retired pay, (2) for agricultural labor (as defined in section 1426 (h)), (3) for domestic service in a private home, local college club, or local chapter of a college fraternity or sorority, (4) for casual labor not in the course of the employer's trade or business, (5) for services as an employee of a non-resident alien individual, foreign partnership, or foreign corporation, if such individual, partnership, or corporation is not engaged in trade or business in the United States, (6) for services as an employee of a foreign government or any wholly owned instrumentality thereof, or (7) for services performed as an employee while outside the United States (as defined in section 3797 (a) (9)), unless the major part of the services performed during the calendar year by such employee for his employer are performed within the United States.

"(c) Withholding agent: The term 'withholding agent' means any person required to withhold, collect, and pay the tax under section 466.

"(d) Employee: The term 'employee' includes (in addition to any individual who is a servant under the law of master and servant) any individual who performs service, of whatever nature, for a person (including the United States, a State, Territory, or any political subdivision thereof, or the District of Columbia, or any agency or instrumentality of any one or more of the foregoing), unless the service is performed by the individual in pursuit of his own independently established business. The term 'employee' also includes an officer of a corporation.

"(e) Employer: The term 'employer' includes any person for whom an individual performs any service, of whatever nature, as the employee of such person.

"Sec. 466. Tax collected at source.

"(a) Requirement of withholding: There shall be withheld, collected, and paid upon all wages of every person, to the extent that such wages are includible in gross income, a tax equal to 5 percent of the excess of each payment of such wages over the withholding deduction allowable under this part. This subsection and subsection (c) shall not be applicable in any case provided for in section 143, except in the case of wages paid to residents of a contiguous country who enter and leave the United States at frequent intervals.

"(b) Withholding deduction:

"(1) In computing the tax required to be withheld under subsection (a), there shall be allowed as a deduction against the wages paid for each pay-roll period an amount determined in accordance with the following schedule:

Pay-roll period:	Withholding deduction
Weekly.....	\$12
Biweekly.....	24
Semi-monthly.....	26
Monthly.....	52

Pay-roll period:	Withholding deduction
Quarterly.....	\$156
Semi-annually.....	312
Annually.....	624

"(2) If a pay-roll period in respect of any wages is less than 1 week, the excess of the aggregate of the wages paid during each calendar week over the deduction allowed by this subsection for a weekly pay-roll period shall be used in computing the tax required to be withheld.

"(3) If a pay-roll period in respect of any wages, or any other period with respect to which wages are paid, is not otherwise specifically provided for in this subsection, the deduction allowable against each payment of such wages shall be the deduction allowable in the case of an annual pay-roll period divided by 365 and multiplied by the number of days in such period, including Sundays and holidays.

"(4) In any case in which wages are paid by an employer without regard to any pay-roll period or other period, the deduction allowable against each payment of such wages shall be the deduction allowable in the case of an annual pay-roll period divided by 365 and multiplied by the number of days (including Sundays and holidays) which have elapsed since the date of the last payment of such wages by such employer during the calendar year, or the date of commencement of employment with such employer during such year, or January 1 of such year, whichever is the later.

"(5) The deduction allowable under this subsection in respect of any individual for any calendar year shall not exceed the total deduction which would have been allowable under paragraph (1) if the only pay-roll period of such individual had been an annual pay-roll period.

"(c) Wage bracket withholding:

"(1) At the election of the employer, if his pay-roll period with respect to an employee is weekly, biweekly, semi-monthly, or monthly, there shall be withheld, collected, and paid upon the wages of such employee a tax determined in accordance with the following tables, which shall be in lieu of the tax required to be withheld under subsection (a):

For weekly pay-roll period			For biweekly pay-roll period		
If the wages are over	But not over	The amount of tax to be withheld shall be	If the wages are over	But not over	The amount of tax to be withheld shall be
\$12	\$16	\$0.10	\$24	\$30	\$0.10
16	20	.30	30	40	.50
20	24	.50	40	50	1.00
24	28	.70	50	60	1.50
28	32	.90	60	70	2.00
32	36	1.10	70	80	2.50
36	40	1.30	80	100	3.30
40	50	1.60	100	120	4.30
50	60	2.10	120	140	5.30
60	70	2.60	140	160	6.30
70	80	3.10	160	180	7.30
80	90	3.60	180	200	8.30
90	100	4.10	200	220	9.30
100	110	4.60	220	240	10.30
110	120	5.10	240	260	11.30
120	130	5.60	260	280	12.30
130	140	6.10	280	300	13.30
140	150	6.60	300	320	14.30
150	160	7.10	320	340	15.30
160	170	7.60	340	360	16.30
170	180	8.10	360	380	17.30
180	190	8.60	380	400	18.30
190	200	9.10	400	420	19.30
200	-----	\$9.40 plus 5% of the excess over \$200.	420	440	20.30
			440	460	21.30
			460	480	22.30
			480	500	23.30
			500	-----	\$23.80 plus 5% of the excess over \$500.

For semimonthly pay-roll period			For monthly pay-roll period		
If the wages are over	But not over	The amount of tax to be withheld shall be	If the wages are over	But not over	The amount of tax to be withheld shall be
\$26	\$30	\$0.10	\$52	\$60	\$0.20
30	40	.40	60	80	.90
40	50	.90	80	100	1.90
50	60	1.40	100	120	2.90
60	70	1.90	120	140	3.90
70	80	2.40	140	160	4.90
80	100	3.20	160	200	6.40
100	120	4.20	200	240	8.40
120	140	5.20	240	280	10.40
140	160	6.20	280	320	12.40
160	180	7.20	320	360	14.40
180	200	8.20	360	400	16.40
200	220	9.20	400	440	18.40
220	240	10.20	440	480	20.40
240	260	11.20	480	520	22.40
260	280	12.20	520	560	24.40
280	300	13.20	560	600	26.40
300	320	14.20	600	640	28.40
320	340	15.20	640	680	30.40
340	360	16.20	680	720	32.40
360	380	17.20	720	760	34.40
380	400	18.20	760	800	36.40
400	420	19.20	800	840	38.40
420	440	20.20	840	880	40.40
440	460	21.20	880	920	42.40
460	480	22.20	920	960	44.40
480	500	23.20	960	1,000	46.40
500	-----	\$23.70 plus 5% of the excess over \$500.	1,000	-----	\$47.40 plus 5% of the excess over \$1,000.

"(d) Withholding where amount is unknown: In any case in which the withholding agent is unable to determine the amount of any wages which is includible in gross income, the Commissioner, under regulations prescribed by him with the approval of the Secretary, may authorize the tax to be withheld, collected, and paid.

"(e) Tax paid by recipient: If any tax required under this part to be withheld and collected is paid by the recipient of the income, it shall not be re-collected from the withholding agent; but such payment shall in no case relieve the withholding agent from liability for interest or additions to the tax otherwise applicable in respect of the tax imposed by this chapter.

"(f) Credit for tax withheld at source: The tax withheld and collected under this part shall not be allowed as a deduction either to the withholding agent or to the recipient of the income in computing net income; but the amount of the tax so withheld and collected shall be allowed as a credit against the tax imposed by this chapter upon the recipient of the income. Such credit shall be allowed first against the victory tax imposed by section 450 (adjusted for the credit allowed by section 453) and the excess of such credit, if any, over the victory tax, so adjusted, shall be allowed against the tax imposed by sections 11 and 12 or section 400, as the case may be.

"(g) Refunds: Where there has been an overpayment of tax under this part, any refund or credit made under the provisions of section 322 shall be made to the recipient of the income; but, in any case in which such tax was not so withheld by the withholding agent, such refund or credit shall be made to the withholding agent.

"(h) Included and excluded wages: If the remuneration paid by an employer to an employee for services performed during one-half or more of any pay-roll period constitutes wages, all the remuneration paid by such employer to such employee for such period shall be deemed to be wages; but if the remuneration paid by an employer to an employee for services performed during more than one-half of any such pay-roll period does not constitute wages, then none of the remuneration paid by such employer to such

employee for such period shall be deemed to be wages.

"Sec. 467. Withholding agent.

"(a) Collection of tax: The tax required to be withheld by section 466 shall be collected by the person having control of the payment of such wages by deducting such amount from such wages as and when paid. As used in this subsection, the term 'person' includes officers and employees of the United States, or of a State, Territory, or any political subdivision thereof, or of the District of Columbia, or any agency or instrumentality of any one or more of the foregoing.

"(b) Indemnification of withholding agent: Every person required to withhold and collect any tax under this part shall be liable for the payment of such tax, and shall not be liable to any person for the amount of any such payment.

"(c) Adjustments: If more or less than the correct amount of tax is withheld or paid for any quarter in any calendar year, proper adjustments, with respect both to the tax withheld or the tax paid, may be made in any subsequent quarter of such calendar year, without interest, in such manner and at such times as may be prescribed by regulations made by the Commissioner, with the approval of the Secretary.

"Sec. 468. Return and payment by withholding agent.

"In lieu of the time prescribed in sections 53 and 56 for the return and payment of the tax imposed by this chapter, every person required to withhold and collect any tax under section 466 shall make a return and pay such tax on or before the last day of the month following the close of each quarter of each calendar year. Every such person shall include with the final return for the calendar year a duplicate copy of each receipt required to be furnished under section 469. Every such person shall also keep such records and render under oath such statements with respect to the tax so withheld and collected as may be required under regulations prescribed by the Commissioner, with the approval of the Secretary.

"Sec. 469. Receipts.

"(a) Wages: Every employer required to withhold and collect a tax in respect of the wages of an employee shall furnish to each such employee in respect of his employment during the calendar year, on or before January 31 of the succeeding year, or, if his employment is terminated before the close of such calendar year, on the day on which the last payment of wages is made, a written statement showing the period covered by the statement, the wages paid by the employer to such employee during such period, and the amount of the tax withheld and collected under this part in respect of such wages.

"(b) Regulations: The statements required to be furnished by this section shall be furnished at such other times, shall contain such other information, and shall be in such form as the Commissioner, with the approval of the Secretary, may by regulations prescribe.

"(c) Extension of time: The Commissioner, under such regulations as he may prescribe with the approval of the Secretary, may grant to any employer a reasonable extension of time (not in excess of 30 days) with respect to the statements required to be furnished to employees on the day on which the last payment of wages is made.

"Sec. 470. Penalties.

"(a) Penalties for fraudulent receipt or failure to furnish receipt: In lieu of any other penalty provided by law (except the penalty provided by subsection (b) of this section), any person required under the provisions of section 469 to furnish a receipt in respect of tax withheld pursuant to this part who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and show-

ing the information required under section 469, or regulations prescribed thereunder, shall for each such failure, upon conviction thereof, be fined not more than \$1,000, or imprisoned for not more than 1 year, or both.

"(b) Additional penalty: In addition to the penalty provided by subsection (a) of this section, any person required under the provisions of section 469 to furnish a receipt in respect of tax withheld pursuant to this part who willfully furnishes a false or fraudulent receipt, or who willfully fails to furnish a receipt in the manner, at the time, and showing the information required under section 469, or regulations prescribed thereunder, shall for each such failure be subject to a civil penalty of not more than \$50.

"(c) Failure of withholding agent to file return: In case of any failure to make and file return required by this part, within the time prescribed by law or prescribed by the Commissioner in pursuance of law, unless it is shown that such failure is due to reasonable cause and not due to willful neglect, the addition to the tax provided for in section 291 shall not be less than \$5.

"PART III—EXPIRATION DATE AND DEFINITIONS

"Sec. 475. Definitions.

"(a) Net income: When used in this title, where not otherwise distinctly expressed or manifestly incompatible with the intent thereof, the term 'net income' shall be construed to mean 'victory tax net income' for the purposes of this subchapter.

"(b) Date of cessation of hostilities in the present war: As used in this subchapter, the term 'date of cessation of hostilities in the present war' means the date on which hostilities in the present war between the United States and the governments of Germany, Japan, and Italy cease, as fixed by proclamation of the President or by concurrent resolution of the two Houses of Congress, whichever date is earlier, or in case the hostilities between the United States and such governments do not cease at the same time, such date as may be so fixed as an appropriate date for the purposes of this subchapter.

"Sec. 476. Expiration date.

"The taxes imposed by this subchapter shall not apply with respect to any taxable year commencing after the date of cessation of hostilities in the present war."

"(b) Classification of provisions: Section 3 is amended by adding at the end thereof the following new paragraph:

"Subchapter D: Victory tax on individuals, divided into parts and sections."

"(c) Rates of tax on citizens of certain foreign countries: Section 103 is amended by striking out "and 362" and inserting "362, and 450"; and by striking out "or 362" and inserting "362, and 450."

"(d) Foreign tax credit:

Section 131 is further amended by adding at the end thereof the following new subsection:

"(i) Tax withheld at source: For the purposes of this supplement the tax imposed by this chapter shall be the tax computed without regard to the credit provided in section 32 and section 466 (f)."

"(e) Refunds and credits:

(1) Section 322 (a) is amended to read as follows:

"(a) Authorization:

"(1) Overpayment: Where there has been an overpayment of any tax imposed by this chapter, the amount of such overpayment shall be credited against any income, war-profits, or excess-profits tax or installment thereof then due from the taxpayer, and any balance shall be refunded immediately to the taxpayer.

"(2) Excessive withholding: Where the amount of the tax withheld at the source under part II of subchapter D exceeds the tax imposed by this chapter (after allowance of

the credits provided by sections 31, 32, and 453), the amount of such excess shall be credited against any income tax or installment thereof then due from the taxpayer, and any balance thereof shall be refunded immediately to the taxpayer."

(2) Section 322 (e) is amended to read as follows:

"(e) Presumption as to date of payment: For the purposes of this section, any tax actually withheld and collected at the source under Part II of Subchapter D shall, in respect of the recipient of the income, be deemed to have been paid by him on the fifteenth day of the third month following the close of his taxable year in which such tax was so withheld and collected; except that in the case of a nonresident alien individual, it shall be deemed to have been paid by him on the fifteenth day of the sixth month following the close of his taxable year.

"(f) Tax withheld at source: For refund or credit in case of withholding agent, see sections 143 (f) and 466 (g)."

(f) Cross references:

(1) Payment of tax: Section 56 (f) is amended to read as follows:

"(f) Tax withheld at source: For requirement of withholding tax at source, see sections 143, 144, and part II of subchapter D."

(2) Credits against tax: The Internal Revenue Code is amended by adding after section 33 the following new sections:

"Sec. 34. Credits against victory tax.

"For credits against victory tax, see sections 453, 454, and 466 (f)."

"Sec. 35. Credit for tax withheld on wages.

"For credit against the tax for tax withheld on wages, see section 466 (f)."

(3) Penalties: Section 145 (d) is amended by inserting "(1)" before the first paragraph and by adding the following new paragraph:

"(2) For additional penalties for fraudulent receipts or failure to furnish receipts required by section 469, see section 470."

(4) Minimum penalty for failure to file return: Section 291 is amended by inserting "(a)" before the first paragraph and by adding the following new subsection:

"(b) For minimum addition to the tax for failure of withholding agent to make and file return required by part II of subchapter D, see section 470 (c)."

(5) Interest on overpayments: Section 3771 is amended by adding at the end thereof the following new subsection:

"(e) Tax withheld at source: For date of payment in respect of tax withheld at source under part II of subchapter D, see section 322 (e)."

(g) Effective date: The provisions of this section shall take effect on January 1, 1943, and shall be applicable to all wages (as defined in part II of subchapter D) paid on or after such date.

Mr. DOWNEY. Mr. President, I intend to offer an amendment to subchapter D, entitled "Victory Tax On Individuals." I, therefore, ask that this amendment be passed over until tomorrow.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

Mr. GEORGE. Mr. President, may I ask the Senator the nature of the amendment which he proposes to offer?

Mr. DOWNEY. The nature of the amendment is to lift the exemption to \$100 a month, apply the 5-percent victory tax up to \$200 a month, and increase the tax to 10 percent over \$200 a month; to provide that all the sum paid shall be refundable after the war in bonds; also to provide that all payments on insurance and on encumbrances upon homes and farms may be deducted before computation of the tax.

Mr. GEORGE. I presume it would be in the nature of a substitute.

Mr. DOWNEY. I do not believe it would be entirely so.

Mr. Rice is now preparing the amendment, and he is endeavoring to preserve as much of the withholding tax and the other portions of the bill as possible, and to make the amendment as simple as possible.

Mr. GEORGE. Then, I think we had better let the committee amendment go over. I thought perhaps some parts of the amendment could be disposed of.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The clerk will state the next amendment of the committee.

The next amendment was, on page 324, line 10, after the word "company", to strike out "subject to the supervision of State authority having supervision over financial institutions", and insert "under State supervision".

The amendment was agreed to.

The next amendment was, on page 324, line 19, after the word "corporation", to strike out "subject to the supervision of State authority having supervision over financial institutions".

The amendment was agreed to.

The next amendment was, on page 325, line 11, after "December 31" to strike out "1938" and insert "1941, except that if a taxpayer, within the time and in the manner and subject to such regulations as the Commissioner with the approval of the Secretary prescribes, elects to have such amendments apply retroactively to all taxable years of the taxpayer beginning after December 31, 1938, and not beginning after December 31, 1941, such amendments shall be applicable to such taxable years."

The amendment was agreed to.

The next amendment was, on page 326, line 1, after the numerals "1942", to strike out "In determining for the purposes of section 141 (e) (8) and (9) the gross income of a corporation within the requirement prescribed by section 501 (a) (1), there shall be disregarded any income resulting from transactions between such corporation and other corporations which are members of the affiliated group."

The amendment was agreed to.

The next amendment was on page 326, after line 7, to insert:

Sec. 184. Computation of undistributed subchapter A net income.

(a) Section 504 (relating to deductions from subchapter A net income) is amended by adding at the end thereof the following:

"(d) Amounts distributed before January 1, 1944, in redemption of preferred stock outstanding before January 1, 1934 (including any preferred stock issued after January 1, 1934, in lieu of such previously outstanding preferred stock), if such distributions are made by a corporation the aggregate of whose gross sales and gross receipts arising from manufacturing, commercial, processing, and service operations during the 4-year period immediately before January 1, 1934, exceeded the aggregate of its gross receipts from dividends, interest, royalties, annuities, and gains from the sale or exchange of stock or securities during such period."

(b) The amendment made by this section shall be applicable to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 329, line 6, after the word "dividends", to strike out "not tax free and."

The amendment was agreed to.

The next amendment was, on page 336, line 15, after the word "within", to strike out "90-days" and insert "6 months"; in line 17, after the word "such", to strike out "90-day" and insert "6-month"; and in line 21, after the word "such", to strike out "90-day" and insert "6-month."

The amendment was agreed to.

The next amendment was, on page 337, after line 19, to insert "Part I—Excess Profits Tax Amendments."

The amendment was agreed to.

The next amendment was, on page 338, line 2, after "(a)", to insert "(1)"; at the beginning of line 4, to strike out "(a) Imposition" and insert "(1) General rule"; and in line 8, after the words "equal to", to strike out "90 percent of the amount thereof" and insert "whichever of the following amounts is the lesser:":

The amendment was agreed to.

The next amendment was, on page 338, after line 10, to insert:

(A) Ninety percent of the adjusted excess-profits net income, or

(B) An amount which when added to the tax imposed for the taxable year under chapter 1 (other than section 102) equals 80 percent of the corporation surtax net income, computed under section 15 or supplement G, as the case may be, but without regard to the credit provided in section 26 (e) (relating to income subject to the tax imposed by this subchapter).

The next amendment was, on page 338, after line 20, to insert:

Sec. 203. Certain fiscal year taxpayers.

(a) Computation of tax for year ending in 1942: Section 710 (a) (relating to imposition of excess-profits tax) is amended by inserting at the end thereof the following new paragraph:

"(3) Taxable years beginning in 1941 and ending after June 30, 1942: In the case of a taxable year beginning in 1941 and ending after June 30, 1942, the tax shall be an amount equal to the sum of—

"(A) That portion of a tentative tax under this subchapter, computed without regard to section 203 of the Revenue Act of 1942, which the number of days in such taxable year before July 1, 1942, bears to the total number of days in such taxable year, plus

"(B) That portion of a tentative tax under this subchapter, computed as if the amendments made by sections 105 (c), 105 (d), 202, and 205 of the Revenue Act of 1942 were applicable to such taxable year, which the number of days in such taxable year after June 30, 1942, bears to the total number of days in such taxable year."

(b) Taxable years to which amendment applicable: The amendment made by this section shall be applicable to taxable years beginning in 1941 and ending after June 30, 1942.

The amendment was agreed to.

The next amendment was, on page 339, after line 20, to strike out:

Sec. 203. Specific exemption.

(a) Amount of exemption: Section 710 (b) (1) (providing a specific exemption of \$5,000) is amended to read as follows:

"(1) Specific exemption: A specific exemption of \$10,000, and in the case of a mutual insurance company other than life a specific exemption of \$50,000;".

(b) Cases in which no return required: Section 729 (b) (2) (relating to amount where no return required) is amended by striking out "\$5,000" and inserting in lieu

thereof "\$10,000, or, in the case of a mutual insurance company other than life, is not greater than \$50,000."

Mr. LA FOLLETTE. Mr. President, I ask that the amendment to section 203 be passed over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The next amendment was, on page 340, after line 7, to insert:

Sec. 204. Two-year carry-back of unused excess profits credit.

(a) Technical amendment: Section 710 (b) (3), relating to the deduction of the excess profits credit carry-over, is amended by striking out "excess profits credit carry-over" and by inserting in lieu thereof "unused excess profits credit adjustment."

(b) Carry-back of unused credit: Section 710 (c) (relating to the determination of the excess profits credit carry-over) is amended to read as follows:

"(c) Unused excess profits credit adjustment:

"(1) Computation of unused excess profits credit adjustment: The unused excess profits credit adjustment for any taxable year shall be the aggregate of the unused excess profits credit carry-overs and unused excess profits credit carry-backs to such taxable year.

"(2) Definition of unused excess-profits credit: The term 'unused excess-profits credit' means the excess, if any, of the excess-profits credit for any taxable year beginning after December 31, 1939, over the excess profits net income for such taxable year, computed on the basis of the excess-profits credit applicable to such taxable year. For such purpose the excess-profits credit and the excess profits net income for any taxable year beginning in 1940 shall be computed under the law applicable to taxable years beginning in 1941. The unused excess-profits credit for a taxable year of less than 12 months shall be an amount which is such part of the unused excess-profits credit determined under the first sentence of this paragraph as the number of days in the taxable year is of the number of days in the 12 months ending with the close of the taxable year.

"(3) Amount of unused excess-profits credit carry-back and carry-over.

"(A) Unused excess-profits credit carry-back: If for any taxable year beginning after December 31, 1941, the taxpayer has an unused excess-profits credit, such unused excess-profits credit shall be an unused excess-profits credit carry-back for each of the 2 preceding taxable years, except that the carry-back in the case of the first preceding taxable year shall be the excess, if any, of the amount of such unused excess-profits credit over the adjusted excess-profits net income for the second preceding taxable year computed for such taxable year (i) by determining the unused excess-profits credit adjustment without regard to such unused excess-profits credit, and (ii) without the deduction of the specific exemption provided in subsection (b) (1).

"(B) Unused excess profits credit carry-over: If for any taxable year beginning after December 31, 1939, the taxpayer has an unused excess profits credit, such unused excess profits credit shall be an unused excess profits credit carry-over for each of the two succeeding taxable years, except that the carry-over in the case of the second succeeding taxable year shall be the excess, if any, of the amount of such unused excess profits credit over the adjusted excess profits net income for the intervening taxable year computed for such intervening taxable year (i) by determining the unused excess profits credit adjustment without regard to such unused excess profits credit or to any unused excess profits credit carry-back, and (ii) without the deduction of the specific exemption provided in subsection (b) (1).

tion (b) (1). For the purposes of the preceding sentence, the unused excess profits credit for any taxable year beginning after December 31, 1941, shall first be reduced by the sum of the adjusted excess profits net income for each of the two preceding taxable years (computed for each such preceding taxable year (i) by determining the unused excess profits credit adjustment without regard to such unused excess profits credit or to the unused excess profits credit for the succeeding taxable year, and (ii) without the deduction of the specific exemption provided in subsection (b) (1)).

"(4) No carry-back to year prior to 1941: As used in this subsection, the term 'preceding taxable year' and the term 'preceding taxable years' do not include any taxable year beginning prior to January 1, 1941."

(c) Taxable years to which amendments applicable: The amendments made by this section shall be applicable only to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 344, after line 3, to strike out:

(a) Section 711 (a) (relating to excess profits net income) is amended by adding after "section 13 (a) (2)," first appearing therein the words "and, in the case of a life insurance company, for any taxable year beginning after December 31, 1941, the adjusted normal-tax net income, as defined in section 202 (a), minus 3¼ percent of the unearned premiums and unpaid losses on cancelable health and accident insurance contracts."

And insert:

(a) Section 710 (a) (relating to imposition of excess profits tax) is amended by inserting at the end thereof the following new paragraph:

"(4) Mutual insurance companies.—In the case of a mutual insurance company other than life or marine, if the gross amount received from interest, dividends, rents, and premiums (including deposits and assessments) is over \$75,000 but less than \$125,000, the tax imposed under this section shall be an amount which bears the same proportion to the amount ascertained under this section, computed without reference to this paragraph, as the excess over \$75,000 of such gross amount received bears to \$50,000."

(b) Section 711 (a) (1) (relating to excess profits credit computed under income credit) is amended by inserting at the end thereof the following new paragraph:

"(H) Life insurance companies.—In the case of a life insurance company, there shall be deducted from the normal tax net income, the excess of (1) the product of (i) the figure determined and proclaimed under section 202 (b) and (ii) the excess profits net income computed without regard to this subparagraph, over (2) the adjustment for certain reserves provided in section 202 (c)."

The amendment was agreed to.

The next amendment was, on page 345, after line 14, to strike out:

(J) In the case of a life-insurance company, the reserve and other policy liability credit shall be reduced by 50 percent thereof.

And insert:

(J) In the case of a life-insurance company, there shall be deducted from the normal tax net income, 50 percent of the excess of (1) the product of (i) the figure determined and proclaimed under section 202 (b) and (ii) the excess profits net income computed without regard to this subparagraph, over (2) the adjustment for certain reserves provided in section 202 (c).

The amendment was agreed to.

The next amendment was, on page 346, in line 17, after the words "amount of

the", to strike out "life insurance" and insert "adjusted"; at the beginning of line 19, to insert "or annuity"; and in line 20, after the word "insurance", to insert "or annuity."

The amendment was agreed to.

The next amendment was, on page 346, after line 23, to strike out:

(e) Specific exemption: For specific exemption of mutual insurance companies other than life, see amendment made by section 203 of this act.

(f) Returns: For return requirement of mutual insurance companies other than life, see amendment made by section 203 of this act.

The amendment was agreed to.

The next amendment was, on page 348, after line 15, to strike out:

(c) Excess profits credit carry-over: Section 710 (c) (1) (defining the unused excess-profits credit) is amended by inserting at the end thereof the following new sentence: "For such purpose, in the case of taxable years beginning after December 31, 1941, the excess-profits credit and the excess-profits net income for any taxable year beginning in 1940 or in 1941 shall be computed under the law applicable to taxable years beginning in 1942."

The amendment was agreed to.

The next amendment was, on page 349, line 10, after the words "more than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 349, after line 10, to insert:

(b) Retirement of long-term bonds: Section 711 (a) (1) (C) is amended by striking out "18 months" and inserting in lieu thereof "6 months."

The amendment was agreed to.

The next amendment was, on page 349, line 20, after the words "more than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 349, after line 20, to insert:

(d) Retirement of long-term bonds: Section 711 (a) (2) (E) is amended by striking out "18 months" and inserting in lieu thereof "6 months."

The amendment was agreed to.

The next amendment was, on page 350, line 6, after the words "more than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 350, after line 6, to insert:

(f) Retirement of long-term bonds: Section 711 (b) (1) (C) is amended by striking out "18 months" and inserting in lieu thereof "6 months."

The amendment was agreed to.

The next amendment was, on page 350, line 25, after "January 1", to strike out "1941" and insert "1943."

The amendment was agreed to.

The next amendment was, on page 351, line 4, after the words "more than", to strike out "15" and insert "6."

The amendment was agreed to.

The next amendment was, on page 351, after line 4, to insert:

Sec. 208. Retroactive treatment of involuntary conversions as capital transactions. Effective with respect to taxable years beginning after December 31, 1939, but not beginning after December 31, 1941, the second sentence of section 711 (a) (1) (B),

section 711 (a) (2) (D), and section 711 (b) (1) (B) is amended to read as follows: "There shall be excluded the excess of the recognized gains from the sale, exchange, or involuntary conversion (as a result of destruction in whole or in part, theft or seizure, or an exercise of the power of requisition or condemnation or the threat or imminence thereof) of property held for more than 18 months which is of a character which is subject to the allowance for depreciation provided in section 23 (1) over the recognized losses from the sale, exchange, or involuntary conversion of such property. For the purposes of this subparagraph, section 117 (h) (1) and (2) shall apply in determining the period for which the taxpayer has held property which is of a character which is subject to the allowance for depreciation provided in section 23 (1)."

The amendment was agreed to.

The next amendment was, on page 352, at the beginning of line 1, to insert: Sec. 209. Nontaxable income from exempt excess output of mining and from bonus income of mines, etc.

(a) Income credit: Section 711 (a) (1) (relating to excess profits credit computed under income credit) is amended by inserting at the end thereof the following new subparagraph:

"(I) Nontaxable income of certain industries with depletable resources: In the case of a producer of minerals, as defined in section 735, there shall be excluded nontaxable income from exempt excess output of mines and nontaxable bonus income provided in section 735."

(b) Invested capital credit: Section 711 (a) (2) (relating to excess profits credit computed under invested capital credit) is amended by inserting at the end thereof the following new subparagraph:

"(K) Nontaxable income of certain industries with depletable resources: In the case of a producer of minerals, as defined in section 735, there shall be excluded nontaxable income from exempt excess output of mines and nontaxable bonus income provided in section 735."

(c) Nontaxable income: Subchapter E of Chapter 2 is amended by inserting after section 734 the following new section:

"Sec. 735. Nontaxable income from certain mining operations.

"(a) Definitions: For the purposes of this section, section 711 (a) (1) (I), and section 711 (a) (2) (K)—

"(1) Excess output: The term 'excess output' means the excess of the units of metal, coal, or nonmetallic substance in the minerals recovered from the operation of a mineral property for the taxable year over the normal output from such property.

"(2) Normal output: The term 'normal output' means the average annual units of metal, coal, or nonmetallic substance in the minerals recovered from the operation of a mineral property in the taxable years beginning after December 31, 1935, and not beginning after December 31, 1939, of the person owning such property (whether or not the taxpayer) (hereinafter called 'base period'). The average annual units of metal, coal, or nonmetallic substance recovered shall be computed by dividing the aggregate of the units recovered during the base period by the number of months for which the property was in operation during the base period and by multiplying the amount so ascertained by 12. Any property which was in operation for less than 6 months during the base period shall, for the purposes of this section, be deemed not to have been in operation during the base period.

"(3) Mineral property: The term 'mineral property' means a mineral deposit, the development and plant necessary for the extraction of the deposit, and so much of the

surface of the land as is necessary for purposes of such extraction.

"(4) Minerals: The term 'minerals' means ores of the metals, coal, and such nonmetallic substances as abrasives, asbestos, asphaltum, barytes, borax, building stone, cement rock, clay, crushed stone, feldspar, fluorspar, fuller's earth, graphite, gravel, gypsum, limestone, magnesite, marl, mica, mineral pigments, peat, potash, precious stones, refractories, rock phosphate, salt, sand, silica, slate, soapstone, soda, sulfur, and talc.

"(5) Normal unit profit: The term 'normal unit profit' means the average profit for the base period per unit of metal, coal, or nonmetallic substance in the minerals recovered from the mineral property during such period, determined by dividing the net income with respect to minerals recovered from the mineral property (computed with the allowance for depletion computed in accordance with the basis for depletion applicable to the current taxable year) during the base period by the number of units of metal, coal, or nonmetallic substance in the minerals recovered from such property during the base period.

"(6) Estimated recoverable units: The term 'estimated recoverable units' means the estimated number of units of metal, coal, or nonmetallic substances in the estimated recoverable minerals from the mineral property at the end of the taxable year plus the excess output for such year. All estimates shall be subject to the approval of the Commissioner, the determinations of whom, for the purposes of this section, shall be final and conclusive.

"(7) Exempt excess output: The term 'exempt excess output' for any taxable year means a number of units equal to the following percentages of the excess output for such year:

"100 percent if the excess output exceeds 50 percent of the estimated recoverable units;

"95 percent if the excess output exceeds 33½ percent but not 50 percent of the estimated recoverable units;

"90 percent if the excess output exceeds 25 percent but not 33½ percent of the estimated recoverable units;

"85 percent if the excess output exceeds 20 percent but not 25 percent of the estimated recoverable units;

"80 percent if the excess output exceeds 16½ percent but not 20 percent of the estimated recoverable units;

"60 percent if the excess output exceeds 14½ percent but not 16½ percent of the estimated recoverable units;

"40 percent if the excess output exceeds 12½ percent but not 14½ percent of the estimated recoverable units;

"30 percent if the excess output exceeds 10 percent but not 12½ percent of the estimated recoverable units;

"20 percent if the excess output exceeds 5 percent but not 10 percent of the estimated recoverable units.

"(b) Nontaxable income from exempt excess output: For any taxable year for which the excess output of mineral property which was in operation during the base period exceeds 5 percent of the estimated recoverable units from such property, the nontaxable income from exempt excess output for such year shall be an amount equal to the exempt excess output for such year multiplied by the normal unit profit, but such amount shall not exceed the net income (computed with the allowance for depletion) attributable to the excess output for such year. For any taxable year, the nontaxable income from exempt excess output of a coal mining or iron mining property which was in operation during the base period shall be an amount equal to the excess output of such property for such year multiplied by one-half of the unit net income from such property for such year; and for such purpose

'unit net income' means the amount ascertained by dividing the net income from the coal or iron recovered from the property during the taxable year by the number of units of coal or iron recovered from such property in such taxable year.

"(c) Nontaxable bonus income: The term 'nontaxable bonus income' means the amount of the income derived from bonus payments made by any agency of the United States Government on account of the production in excess of a specified quota of a mineral product the exhaustion of which gives rise to an allowance for depletion under section 23 (m), but such amount shall not exceed the net income attributable to the output in excess of such quota.

"(d) Rule in case income from excess output includes bonus payment: In any case in which the income attributable to the excess output includes bonus payments (as provided in subsection (c)), the taxpayer may elect, under regulations prescribed by the Commissioner with the approval of the Secretary, to receive either the benefits of subsection (b) or subsection (c) with respect to such income as is attributable to excess output above the specified quota."

(d) Retroactive exclusion of nontaxable bonus income: The amendments made by this section inserting section 711 (a) (1) (H), section 711 (a) (2) (K), and section 735 (c), to the extent that they relate to nontaxable bonus income, shall be applicable to taxable years beginning after December 31, 1940.

Mr. GEORGE. Mr. President, I think it is in this section that the Senator from Oregon [Mr. McNARY] had in mind offering an amendment. He wished to offer a provision with respect to timber depletion. I ask that this amendment be passed over. I do not know what amendment the Senator from Oregon is going to offer, but the portion of the bill in which I assume he is interested extends through line 8 on page 358.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

Mr. HATCH. Mr. President, the amendments are being acted upon so rapidly that I am not quite sure just what has happened. On page 358, I desire to offer an amendment including fluorspar and potash. I should like to know whether, if the amendment has gone over, I shall have an opportunity to offer my amendment at a later time.

Mr. LA FOLLETTE. Mr. President, let me suggest that there may be some confusion arising from the fact that the page numbers are being referred to instead of the section numbers. It would seem to me that if the matter mentioned by the Senator from Oregon relates to the excessive depletion of timber due to the demands of war, certainly section 735, beginning at the top of page 353, and going down through line 8 on page 358, should be passed over.

Mr. HATCH. That is what I was endeavoring to ascertain. If all of the section has been passed over, it would be open to amendment.

Mr. LA FOLLETTE. I think the whole section should be passed over, so that the Senator from Oregon [Mr. McNARY] and the Senator from New Mexico. [Mr. HATCH] may be able to proffer any amendment they may desire to offer.

Mr. McKELLAR. Mr. President, I, too, hope the amendment will be passed over,

because I have an amendment which I desire to offer to the section.

The PRESIDING OFFICER. Without objection, the amendment beginning on page 353, line 1, will be passed over.

The next amendment of the committee will be stated.

The next amendment was, on page 358, after line 8, to insert:

Sec. 210. Credit for dividends received in computation of excess profits net income in connection with invested capital credit.

(a) Section 711 (a) (2) (A) is amended to read as follows:

"(A) Dividends received: The credit for dividends received shall apply, without limitation, to all dividends on stock of all corporations, except that no credit for dividends received shall be allowed with respect to dividends (actual or constructive) on stock of foreign personal holding companies or dividends on stock which is not a capital asset."

(b) The amendment made by subsection (a) shall be effective as of the date of enactment of the Excess Profits Tax Act of 1940.

The amendment was agreed to.

The next amendment was, on page 362, line 20, after the word "section", to strike out the numerals "217", and insert "227."

The amendment was agreed to.

The next amendment was, on page 362, after line 20, to insert:

Sec. 214. Base period net income of lowest year in base period.

Section 713 (e) (1) (relating to exclusion of deficit year from computation of average base period net income) is amended to read as follows:

"(1) By computing the aggregate of the excess profits net income for each of the taxable years of the taxpayer in the base period, reduced by the sum of the deficits in excess profits net income for each of such years. If the excess profits net income (or deficit in excess profits net income) for one taxable year in the base period divided by the number of months in such taxable year is less than 75 percent of the aggregate of the excess profits net income (reduced by deficits in excess profits net income) for the other taxable years in the taxpayer's base period divided by the number of months in such other taxable years (herein called 'average monthly amount') the amount used for such one year under this paragraph shall be 75 percent of the average monthly amount multiplied by the number of months in such one year, and the year increased under this sentence shall be the year the increase in which will produce the highest average base period net income."

The amendment was agreed to.

The next amendment was, on page 367, after line 2, to insert:

Sec. 218. Deficit in earnings and profits of another corporation.

(a) Addition to equity invested capital of transferee: Section 718 (a) is amended by inserting at the end thereof the following new paragraph:

"(7) Deficit in earnings and profits of another corporation: In the case of a transferee, as defined in subsection (c) (5), an amount, determined under such paragraph, equal to the portion of the deficit in earnings and profits of a transferor attributable to property received previously to such day."

(b) Reduction of equity invested capital of transferor: Section 718 (b) is amended by inserting at the end thereof the following new paragraph:

"(5) Deficit in earnings and profits transferred to another corporation: In the case of a transferor, as defined in subsection (c)

(5), an amount, determined under such paragraph, equal to the portion of the deficit in earnings and profits of the transferor attributable to property transferred previously to such day."

(c) Earnings and profits of transferor and transferee: Section 718 (c) (relating to rules for determining invested capital) is amended by inserting at the end thereof the following new paragraph:

"(5) Deficit in earnings and profits—Earnings and profits of transferor and transferee: If a corporation (hereinafter called 'transferor') transfers substantially all its property to another corporation formed to acquire such property (hereinafter called 'transferee'), if—

"(A) The sole consideration for the transfer of such property is the transfer to the transferor or its shareholders of all the stock of all classes (except qualifying shares) of the transferee. (In determining whether the transfer is solely for stock, the assumption by the transferee of a liability of the transferor or the fact that the property acquired is subject to a liability shall be disregarded);

"(B) The basis of the property, in the hands of the transferee, for the purposes of this subsection, is determined by reference to the basis of the property in the hands of the transferor;

"(C) The transferor is forthwith completely liquidated in pursuance of the plan under which the acquisition of the property is made; and

"(D) Immediately after the liquidation the shareholders of the transferor own all such stock;

for the purposes of this subchapter, in computing the equity invested capital for any day after the date of the acquisition of the property, the earnings and profits or deficit in earnings and profits of the transferee and the transferor shall be computed as if, immediately before the beginning of the taxable year in which such transfer occurs, the transferee had been in existence and sustained a recognized loss and the transferor had realized a recognized gain, equal to the portion of the deficit in earnings and profits of the transferor attributable to such property."

The amendment was agreed to.

The next amendment was, on page 369, after line 13, to insert:

Sec. 219. Amortizable bond premium on certain Government obligations.

The first sentence of section 720 (d) (relating to increase in excess profits net income where Government obligations treated as admissible assets) is amended to read as follows: "If the excess profits credit for any taxable year is computed under section 714, the taxpayer may in its return for such year elect to increase its normal-tax net income for such taxable year by an amount equal to the amount of the interest on, reduced by the amount of the amortizable bond premium under section 125 attributable to, all obligations held during the taxable year which are described in section 22 (b) (4) any part of the interest from which is excludible from gross income or allowable as a credit against net income."

The amendment was agreed to.

The next amendment was, on page 370, after line 4, to insert:

Sec. 220. Abnormalities in income in taxable period.

(a) Rule for computations: Section 721 (c) and (d) (relating to computation of tax in case of abnormalities in income in the taxable period) is amended to read as follows:

"(c) Computation of tax for current taxable year: The tax under this subchapter for the taxable year, in which the whole of such

abnormal income would without regard to this section be includible, shall not exceed the sum of:

"(1) The tax under this subchapter for such taxable year computed without the inclusion in gross income of the portion of the net abnormal income which is attributable to any other taxable year, and

"(2) The aggregate of the increase in the tax under this subchapter for the taxable year (computed under paragraph (1)) and for each previous taxable year which would have resulted if, for each previous taxable year to which any portion of such net abnormal income is attributable, an amount equal to such portion had been included in the gross income for such previous taxable year.

"(d) Computation of tax for future taxable year: The amount of the net abnormal income attributable to any future taxable year shall, for the purposes of this subchapter, be included in the gross income for such taxable year.

"(1) The tax under this subchapter for such future taxable year shall not exceed the sum of—

"(A) The tax under this subchapter for such future taxable year computed without the inclusion in gross income of the portion of such net abnormal income which is attributable to such year, and

"(B) The decrease in the tax under this subchapter for the previous taxable year in which the whole of such abnormal income would, without regard to this section, be includible which resulted by reason of the computation of such tax for such previous taxable year under the provisions of subsection (c); but the amount of such decrease shall be diminished by the aggregate of the increases in the tax under this subchapter for the future taxable year as computed under subparagraph (A) and for the taxable years intervening between such previous taxable year and such future taxable year which have resulted because of the inclusion of the portions of such net abnormal income attributable to such intervening years in the gross income for such intervening years.

"(2) If, in the application of subsection (c), net abnormal income from more than 1 taxable year is attributable to any future taxable year, paragraph (1) of this subsection shall be applied with respect to such future taxable year in the order of the taxable years from which the net abnormal income is attributable beginning with the earliest, as if the portion of the net abnormal income from each such year was the only amount so attributable to such future taxable year, and (except in the case of the portion for the earliest previous taxable year) as if the tax under this subchapter for the future taxable year was the tax determined under paragraph (1) with respect to the portion for the next earlier previous taxable year.

"(3) If in the application of paragraph (1) to any future taxable year it is determined that the decrease in tax computed under paragraph (1) (B) with respect to the net abnormal income, a portion of which is included in the gross income for the future taxable year, does not exceed the aggregate of the increases in tax computed under paragraph (1) (B) with respect to such net abnormal income, then the portions of such net abnormal income attributable to taxable years subsequent to such future taxable year shall not be included in the gross income for such subsequent taxable years. For the purpose of computing the tax under this subchapter for a taxable year subsequent to the future taxable year, the portion of net abnormal income attributable to the future taxable year shall not be included in the gross income for such future taxable year to the extent that the inclusion of such portion of net abnormal income in the gross income for such

future taxable year did not result in an increase in tax for such future taxable year by reason of the provisions of paragraph (1).

"(e) Application of section: This section shall be applied only for the purpose of computing the tax under this subchapter as provided in subsections (c) and (d), and shall have no effect upon the computation of base period net income. For the purposes of subsections (c) and (d):

"(1) Net abnormal income means the aggregate of the net abnormal income of all classes for 1 taxable year.

"(2) Under regulations prescribed by the Commissioner with the approval of the Secretary, the tax under this subchapter for previous taxable years shall be computed as if the portions of net abnormal income for each previous taxable year for which the tax was computed under this section were included in the gross income for the other previous taxable years to which such portions were attributable.

"(3) If both subsections (c) and (d) are applicable to any current taxable year, subsection (d) shall be applied without regard to subsection (c), and subsection (c) shall be applied as if the tax under this subchapter, except for subsection (c), was the tax computed under subsection (d) and as if the gross income and the other amounts necessary to determine the adjusted excess profits net income were those amounts which would result in the tax computed under subsection (d).

"(f) Abnormal income from exploration, etc.: If by reason of taking into account, in determining constructive average base period net income under section 722, exploration, discovery, prospecting, research, or development of tangible property, patents, formulae, or processes, or any combination of the foregoing, extending over a period of more than 12 months, such constructive average base period net income is higher than it would be without such taking into account, only such portion of the income in the taxable year resulting from such activity which is of a class described in subsection (a) (2) (C) as is attributable to another taxable year under this subchapter shall be deemed attributable to a year other than the taxable year."

(b) Taxable years to which amendments applicable: The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1939.

Mr. BREWSTER. Mr. President, let the amendment go over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

Mr. GEORGE. Mr. President, let me inquire of the Senator from Maine what particular section he has asked to have go over?

Mr. BREWSTER. Section 220. That is the one dealing with excess profits, and in it there are certain changes in phraseology the significance of which is not very clear.

The PRESIDING OFFICER. The next amendment of the committee will be stated.

The next amendment was, on page 375, at the end of line 24, after the numerals "1939", to change the period to a comma and insert "except that, in the cases described in the last sentence of section 722 (b) (4) and in section 722 (c), regard shall be had to the change in the character of the business under section 722 (b) (4) or the nature of the taxpayer and the character of its business under section 722 (c) to the extent neces-

sary to establish the normal earnings to be used as the constructive average base period net income."

The amendment was agreed to.

The next amendment was, on page 378, line 8, after the words "as a result of", to strike out "commitments made prior to January 1, 1940, binding the taxpayer to make the change" and insert "a course of action to which the taxpayer was committed prior to January 1, 1940."

The amendment was agreed to.

The next amendment was, on page 380, after line 4, to strike out:

"(d) Limitation on application of general rule: The constructive average base period net income determined under subsection (a) shall not be used for any taxable year unless—

"(1) The tax under this subchapter for such taxable year computed without reference to this section, exceeds 6 percent of the taxpayer's normal tax net income for such year computed without the credit provided in section 26 (c) (relating to adjusted excess profits net income); and

"(2) The tax under this subchapter for the taxable year computed by using the constructive average base period net income determined under subsection (a) (but without regard to subsection (c)) would be less than 95 percent of the tax for the taxable year computed without reference to this section.

"(e) Extent of reduction of tax under this section: The tax under this subchapter, determined with the use of the constructive average base period net income determined under subsection (a), shall not be less than either—

"(1) The amount of such tax, determined without regard to this subsection but with the use of the constructive average base period net income determined under subsection (a), plus 5 percent of the tax so determined, or

"(2) 6 percent of the taxpayer's normal tax net income, computed without the credit provided in section 26 (e) (relating to adjusted excess profits net income).

The amendment was agreed to.

The next amendment was, on page 381, line 12, after the words "section 710 (a)", to strike out "(3)" and insert "(2)."

The amendment was agreed to.

The next amendment was, on page 381, line 15, after the word "return" and the comma, to insert "or if the application relates to a taxable year beginning after December 31, 1939, but not beginning after December 31, 1941, within 6 months after the date of the enactment of the Revenue Act of 1942."

The amendment was agreed to.

The next amendment was, on page 382, line 10, after the words "filing of the return", to insert "or if the application relates to a taxable year beginning after December 31, 1939, but not beginning after December 31, 1941, within 6 months after the date of the enactment of the Revenue Act of 1942."

The amendment was agreed to.

The next amendment was, on page 383, after line 12, to insert:

"(f) Mining corporations: In the case of a taxpayer to which section 711 (a) (1) (H) or section 711 (a) (2) (K) applies, if its constructive average base period net income is established under this section, there shall also be determined a fair and just amount to be used as normal output and normal unit profit for the purposes of section 735."

The amendment was agreed to.

The next amendment was, on page 384, after line 13, to strike out:

(c) Abnormal income for the taxable year: Section 721 (a) (1) (relating to abnormalities in income in the taxable period) is amended by adding at the end thereof the following new sentence: "Income of a class derived from any activity of the business which is taken into account in the determination of a constructive average base period net income under section 722 shall not constitute 'abnormal income' for the purposes of this section."

The amendment was agreed to.

The next amendment was, at the top of page 385, to strike out:

"(d) Special division of Board: The determinations and redeterminations by the Board provided for in this section shall be made by a special division of the Board which shall be constituted by the Chairman and consist of not less than three members of the Board. Such determinations and redeterminations shall not be reviewable by the Board, and the decisions of such division making such determinations and redeterminations shall be deemed decisions of the Board."

And insert:

"(d) Review by special division of Board: The determinations and redeterminations by any division of the Board involving any question arising under section 721 (a) (2) (C) or section 722 shall be reviewed by a special division of the Board which shall be constituted by the Chairman and consist of not less than three members of the Board. The decisions of such special division shall not be reviewable by the Board, and shall be deemed decisions of the Board."

The amendment was agreed to.

The next amendment was, on page 385, after line 17, to strike out:

(e) Bonus income of industries with depletable reserves:

(1) Income credit: Section 711 (a) (1) (relating to excess profits credit computed under income credit) is amended by inserting at the end thereof the following new subparagraph:

"(H) Bonus income: There shall be excluded income derived from bonus payments made by any agency of the United States Government on account of the production in excess of a specified quota of a product the exhaustion of which gives rise to an allowance for depletion under section 23 (m)."

(2) Invested capital credit: Section 711 (a) (2) (relating to excess profits credit computed under invested capital credit) is amended by inserting at the end thereof the following new subparagraph:

"(K) Bonus income: There shall be excluded income derived from bonus payments made by any agency of the United States Government on account of the production in excess of a specified quota of a product the exhaustion of which gives rise to an allowance for depletion under section 23 (m)."

The amendment was agreed to.

The next amendment was, on page 386, line 16, after the word "basis", to insert the words "and other."

The amendment was agreed to.

The next amendment was, on page 386, line 18, after the words "after section", to strike out the numeral "734", and insert "735."

The amendment was agreed to.

The next amendment was, on page 386, after line 19, to insert "And taxpayers with income from long-term contracts."

The amendment was agreed to.

The next amendment was, on page 386, after line 21, to strike out:

"(a) Election to accrue income: In the case of any taxpayer computing income from installment sales under the method provided by section (a), if such taxpayer establishes that the average volume of credit extended to purchasers on the installment plan in the 4 preceding taxable years was more than 125 percent of the volume of such credit extended to such purchasers in the taxable year, it may elect, in its first return for the taxable year, for the purposes of the tax imposed by this subchapter, to compute, pursuant to regulations prescribed by the Commissioner with the approval of the Secretary, its gross income from installment sales on the basis of the taxable period for which such income is accrued, in lieu of the basis provided by section 44 (a). Such election shall be irrevocable when once made and shall apply also to all subsequent taxable years, and the gross income from installment sales for each taxable year before the first year with respect to which the election is made but beginning after December 31, 1939, shall be adjusted for the purposes of this subchapter to conform to such election. In making such adjustments, no amount shall be included in computing excess profits net income for any excess profits tax taxable year on account of installment sales made in taxable years beginning before January 1, 1940.

And insert:

"(a) Election to accrue income: In the case of any taxpayer computing income from installment sales under the method provided by section 44 (a), if such taxpayer establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, that the average volume of credit extended to purchasers on the installment plan in the 4 taxable years preceding the first taxable year beginning after December 31, 1941, was more than 125 percent of the volume of such credit extended to such purchasers in the taxable year, or the average outstanding installment accounts receivable at the end of each of the 4 taxable years preceding the first taxable year beginning after December 31, 1941, was more than 125 percent of the average of such accounts receivable at the end of the taxable years, or if the taxpayer was not in existence for 4 previous taxable years, the taxable years during which the taxpayer was in existence, in either case including only such years for which the income was computed under the method provided in section 44 (a), it may elect, in its return for the taxable year, for the purposes of the tax imposed by this subchapter, to compute, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, its income from installment sales on the basis of the taxable period for which such income is accrued, in lieu of the basis provided by section 44 (a). Except as herein-after provided, such election shall be irrevocable when once made and shall apply also to all subsequent taxable years, and the income from installment sales for each taxable year before the first year with respect to which the election is made but beginning after December 31, 1939, shall be adjusted for the purposes of this subchapter to conform to such election. In making such adjustments, no amount shall be included in computing excess profits net income for any excess profits tax taxable year on account of installment sales made in taxable years beginning before January 1, 1940. If the taxpayer establishes, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, that in a taxable year subsequent to the year with respect to which an election has been made under the preceding provisions of this subsection it would not be eligible to elect such accrual

method, the taxpayer may in accordance with such regulations elect in its return for such year to abandon such accrual method. Such election shall be irrevocable when once made and shall preclude any further elections under this subsection. For the taxable year for which the latter election is made and subsequent taxable years, income shall be computed in accordance with section 44 (c)."

The amendment was agreed to.

The next amendment was, on page 389, after line 16, to insert:

"(b) Election on long-term contracts: In the case of any taxpayer computing income from contracts the performance of which requires more than 12 months, if it is abnormal for the taxpayer to derive income of such class, or, if the taxpayer normally derives income of such class but the amount of such income of such class includible in the gross income of the taxable year is in excess of 125 percent of the average amount of the gross income of the same class for the 4 previous taxable years, or, if the taxpayer was not in existence for 4 previous taxable years, the taxable years during which the taxpayer was in existence, it may elect, in its return for such taxable year for the purposes of this subchapter to compute, in accordance with regulations prescribed by the Commissioner with the approval of the Secretary, such income upon the percentage of completion method of accounting. Such election shall be irrevocable when once made and shall apply to all other contracts the performance of which requires more than 12 months. The net income of the taxpayer for each year prior to that with respect to which the election is made shall be adjusted for the purposes of this subchapter to conform to such election. Income described in this subsection shall not be considered abnormal income under section 721.

Mr. WHITE. Mr. President, a few moments ago my colleague the junior Senator from Maine [Mr. Brewster] asked that a certain section be passed over. I desire to call attention to the proposed new subparagraph (b), on page 389, and to ask if it is not related to the same subject in which my colleague was interested.

Mr. BREWSTER. If that be so, I shall be deeply interested in the amendment, and I thank the Senator for calling my attention to it.

Mr. WHITE. Therefore, Mr. President, I ask that subparagraph (b), beginning on page 389, be passed over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The next amendment was, on page 390, line 16, after the words "in subsection (a)", to insert "or subsection (b)", as the case may be."

The amendment was agreed to.

The next amendment was, on page 390, line 18, after the word "taxpayer", to strike out "to change its method of computing income from installment sales" and insert "under subsection (a) or subsection (b), as the case may be."

The amendment was agreed to.

The next amendment was, on page 391, line 6, after the word "tax", to insert "imposed by chapter 1 and this subchapter."

The amendment was agreed to.

The next amendment was, on page 391, line 8, after the words "subsection (a)", to insert "or subsection (b)", as the case may be."

The amendment was agreed to.

The next amendment was, on page 391, line 22, after the words "subsection (a)", to insert "or subsection (b)", as the case may be."

The amendment was agreed to.

The next amendment was, on page 392, line 2, after the words "subsection (a)", to insert "or subsection (b)", as the case may be."

The amendment was agreed to.

The next amendment was, on page 392, after line 3, to insert:

(e) Retroactive application of general relief provisions: The amendments made by this section to section 722 shall be applicable with respect to taxable years beginning after December 31, 1939.

(f) Technical amendment: Section 721 (a) (2) (B) (relating to abnormalities on account of long-term contracts) shall not apply with respect to any taxable year beginning after December 31, 1941.

The amendment was agreed to.

The next amendment was, on page 392, after line 11, to strike out:

Sec. 214. Exemption of regulated investment companies.

The amendment was agreed to.

The next amendment was, on page 392, after line 13, to insert:

Sec. 222. Exempt corporations.

(a) Not exempt if consolidated returns filed: So much of section 727 as reads "The following corporations shall be exempt from the tax imposed by this subchapter" is amended to read as follows: "The following corporations, except a member of an affiliated group of corporations filing consolidated returns under section 141, shall be exempt from the tax imposed by this subchapter."

(b) Personal service corporation not exempt if consolidated return filed: Section 725 (b) (relating to exemption of personal service corporations) is amended by inserting at the end thereof the following new sentence: "Such corporation shall not be exempt for such year if it is a member of an affiliated group of corporations filing consolidated returns under section 141."

The amendment was agreed to.

The next amendment was, on page 393, after line 3, and before the words "Section 727 (c)", to insert:

(c) Exemption of regulated investment companies.

The amendment was agreed to.

The next amendment was, on page 393, after line 9, to insert:

Sec. 223. Excess profits tax returns.

(a) Section 729 (b) (1) (relating to double computation on returns) is repealed.

(b) Section 712 (c) (relating to disclaimer of excess profits credit) is repealed.

(c) The amendments made by this section shall be applicable with respect to taxable years beginning after December 31, 1939.

The amendment was agreed to.

The next amendment was, on page 394, after line 2, to insert:

Sec. 225. Exemption from tax of mining of certain strategic minerals.

(a) Exemption: Subchapter E of chapter 2 is amended by inserting after section 730 the following new section:

"Sec. 731. Corporations engaged in mining of strategic minerals.

"In the case of any domestic corporation engaged in the mining of antimony, chromite, manganese, nickel, platinum, quicksilver, sheet mica, tantalum, tin, tungsten, or vanadium, the portion of the adjusted excess

profits net income attributable to such mining in the United States shall be exempt from the tax imposed by this subchapter. The tax on the remaining portion of such adjusted excess profits net income shall be an amount which bears the same ratio to the tax computed without regard to this section as such remaining portion bears to the entire adjusted excess profits net income."

(b) Taxable years to which amendment applicable: The amendment made by this section shall be applicable to taxable years beginning after December 31, 1940.

The amendment was agreed to.

The next amendment was, on page 394, after line 22, to insert:

Sec. 226. Amendments to section 734.

Section 734 is amended to read as follows: "Sec. 734. Adjustment in case of position inconsistent with prior income-tax liability.

"(a) Definitions: For the purposes of this section—

"(1) Taxpayer: The term 'taxpayer' means any person subject to a tax under the applicable revenue act.

"(2) Income tax: The term 'income tax' means an income tax imposed by chapter 1 or chapter 2A of this title; title I and title IA of the Revenue Acts of 1938, 1936, and 1934; title I of the Revenue Acts of 1932 and 1928; title II of the Revenue Acts of 1926 and 1924; title II of the Revenue Acts of 1921 and 1918; title I of the Revenue Act of 1917; title I of the Revenue Act of 1916; or section II of the act of October 3, 1913; a war-profits or excess-profits tax imposed by title III of the Revenue Acts of 1921 and 1918; or title II of the Revenue Act of 1917; or an income, war-profits, or excess profits tax imposed by any of the foregoing provisions, as amended or supplemented.

"(3) Prior taxable year: A taxable year beginning after December 31, 1939, shall not be considered a prior taxable year.

"(4) The term 'predecessor of the taxpayer' means—

"(A) A person which is a component corporation of the taxpayer within the meaning of section 740; and

"(B) A person which on April 1, 1941, or at any time thereafter, controlled the taxpayer. The term 'controlled' as herein used shall have the same meaning as 'control' under section 112 (h), and

"(C) Any person in an unbroken series ending with the taxpayer if subparagraph (A) or (B) would apply to the relationship between the parties.

"(b) Circumstances of adjustment:

"(1) If—

"(A) In determining at any time the tax of a taxpayer under this subchapter an item affecting the determination of the excess profits credit is treated in a manner inconsistent with the treatment accorded such item in the determination of the income-tax liability of such taxpayer or a predecessor for a prior taxable year or years, and

"(B) The treatment of such item in the prior taxable year or years consistently with the determination under this subchapter would effect an increase or decrease in the amount of the income taxes previously determined for such taxable year or years, and

"(C) On the date of such determination of the tax under this subchapter correction of the effect of the inconsistent treatment in any one or more of the prior taxable years is prevented (except for the provisions of section 3801) by the operation of any law or rule of law (other than section 3761, relating to compromises),

then the correction shall be made by an adjustment under this section. If in a subsequent determination of the tax under this subchapter for such taxable year such inconsistent treatment is not adopted, then the correction shall not be made in connection with such subsequent determination.

"(2) Such adjustment shall be made only if there is adopted in the determination a position maintained by the Commissioner (in case the net effect of the adjustment would be a decrease in the income taxes previously determined for such year or years) or by the taxpayer with respect to whom the determination is made (in case the net effect of the adjustment would be an increase in the income taxes previously determined for such year or years) which position is inconsistent with the treatment accorded such item in the prior taxable year or years which was not correct under the law applicable to such year.

"(3) Burden of proof: In any proceeding before the Board or any court the burden of proof in establishing that an inconsistent position has been taken (A) shall be upon the Commissioner, in case the net effect of the adjustment would be an increase in the income taxes previously determined for the prior taxable year or years, or (B) shall be upon the taxpayer, in case the net effect of the adjustment would be a decrease in the income taxes previously determined for the prior taxable year or years.

"(c) Method and effect of adjustment:

"(1) The adjustment authorized by subsection (b), in the amount ascertained as provided in subsection (d), if a net increase shall be added to, and if a net decrease shall be subtracted from, the tax otherwise computed under this subchapter for the taxable year with respect to which such inconsistent position is adopted.

"(2) If more than one adjustment under this section is made because more than one inconsistent position is adopted with respect to 1 taxable year under this subchapter, the separate adjustments, each an amount ascertained as provided in subsection (d), shall be aggregated, and the aggregate net increase or decrease shall be added to or subtracted from the tax otherwise computed under this subchapter for the taxable year with respect to which such inconsistent positions are adopted.

"(3) If all the adjustments under this section, made on account of the adoption of an inconsistent position or positions with respect to one taxable year under this subchapter, result in an aggregate net increase, the tax imposed by this subchapter shall in no case be less than the amount of such aggregate net increase.

"(4) If all the adjustments under this section, made on account of the adoption of an inconsistent position or positions with respect to a taxable year under this subchapter (hereinafter in this paragraph called the current taxable year), result in an aggregate net decrease, and the amount of such decrease exceeds the tax imposed by this subchapter (without regard to the provisions of this section) for the current taxable year, such excess shall be subtracted from the tax imposed by this subchapter for each succeeding taxable year, but the amount of the excess to be so subtracted shall be reduced by the reduction in tax for intervening taxable years which has resulted from the subtraction of such excess from the tax imposed for each such year.

"(d) Ascertainment of amount of adjustment: In computing the amount of an adjustment under this section there shall first be ascertained the amount of the income taxes previously determined for each of the prior taxable years for which correction is prevented. The amount of each such tax previously determined for each such taxable year shall be (1) the tax shown by the taxpayer, or by the predecessor, upon the return for such prior taxable year, increased by the amounts previously assessed (or collected without assessment) as deficiencies, and decreased by the amounts previously abated, credited, refunded, or otherwise repaid in respect of such tax; or (2) if no amount was shown as the tax by such taxpayer or such predecessor upon the return, or if no return was made by such taxpayer or such predecessor,

then the amounts previously assessed (or collected without assessment) as deficiencies, but such amounts previously assessed, or collected without assessment, shall be decreased by the amounts previously abated, credited, refunded, or otherwise repaid in respect of such tax. There shall then be ascertained the increase or decrease in each such tax previously determined for each such year which results solely from the treatment of the item consistently with the treatment accorded such item in the determination of the tax liability under this subchapter. To the increase or decrease so ascertained for each such tax for each such year there shall be added interest thereon computed as if the increase or decrease constituted a deficiency or an overpayment, as the case may be, for such prior taxable year. Such interest shall be computed to the fifteenth day of the third month following the close of the excess-profits tax taxable year with respect to which the determination is made. There shall be ascertained the difference between the aggregate of such increases, plus the interest attributable to each, and the aggregate of such decreases, plus the interest attributable to each, and the net increase or decrease so ascertained shall be the amount of the adjustment under this section with respect to the inconsistent treatment of such item.

"(e) Interest in case of net increase or decrease:

"(1) If an adjustment under this section results in a net decrease, or more than one adjustment results in an aggregate net decrease, the portion of such net decrease or aggregate net decrease, as the case may be, subtracted from the tax which represents interest shall be included in gross income of the taxable year in which falls the date prescribed for the payment of the tax under this subchapter.

"(2) If an adjustment under this section results in a net increase, or more than one adjustment results in an aggregate net increase, the portion of such net increase or aggregate net increase, as the case may be, which represents interest shall be allowed as a deduction in computing net income for the taxable year in which falls the date prescribed for the payment of the tax under this subchapter."

The amendment was agreed to.

The next amendment, was, on page 402, after line 4, to strike out:

(a) Amendments to Supplement A: Supplement A of chapter 2E is amended to read as follows:

"Supplement A: Excess profits credit based on income.

And insert:

(a) Amendments to section 740: Section 740 is amended to read as follows:

The amendment was agreed to.

The next amendment was, on page 405, line 1, after the word "section", to strike out "741, and section 742", and insert "742, and section 743."

The amendment was agreed to.

The next amendment was, on page 405, line 3, after the words "subsection (a)", to strike out:

For the purposes of computing, for any taxable year beginning after December 31, 1941, the excess-profits credit of such component corporation or of an acquiring corporation of which the acquiring corporation in such transaction is not a component, no account shall be taken of the net income, capital addition, or capital reduction of such component corporation before such transaction, or of the net income, capital addition, or capital reduction before such transaction, of its component corporations in any transaction before such transaction.

And insert:

"(1) Except as provided in paragraph (2), for the purpose of computing, for any taxable year beginning after December 31, 1941, the excess profits credit of such component corporation or of an acquiring corporation of which the acquiring corporation in such transaction is not a component, except in the application of sections 713 (f) and 742 (h) (other than the limitation on the amount of average base period net income or Supplement A average base period net income, as the case may be, determined thereunder), no account shall be taken of the excess profits net income of such component corporation for any period before the day after such transaction, or of the excess profits net income for any period before the day after such transaction of its component corporations in any transaction before such transaction, and no account shall be taken of the capital addition or capital reduction of such component corporation either immediately before such transaction or for any prior period, or of the capital addition or capital reduction either immediately before such transaction or for any prior period of its component corporations in any transaction before such transaction.

"(2) In case such transaction occurred in a taxable year of such component corporation beginning after December 31, 1941, for the purpose of computing the excess profits credit of such component corporation for such taxable year, the amount of its average base period net income or Supplement A average base period net income, as the case may be, shall be limited to an amount which bears the same ratio to such average base period net income or Supplement A average base period net income, as the case may be (computed without regard to this paragraph but with the application of paragraph (1) in case of a prior transaction described in subsection (a) with respect to such component corporation or a component corporation thereof), as the number of days in such taxable year before the day after such transaction bears to the total number of days in such taxable year.

For the purposes of section 742, in the case of a corporation which is a component corporation in a transaction described in subsection (a), in computing for any taxable year the Supplement A average base period net income of the acquiring corporation in such transaction or of a corporation of which such acquiring corporation becomes a component corporation, no account shall be taken of the excess profits net income of such component corporation for any period beginning with the day after such transaction.

The amendment was agreed to.

The next amendment was, on page 408, at the beginning of line 16, to strike out "741" and insert "742"; and at the end of the line, to strike out "742" and insert "743."

The amendment was agreed to.

The next amendment was, on page 408, in line 21, at the end of the line, to strike out "741" and insert "742."

The amendment was agreed to.

The next amendment was, on page 408, after line 23, to insert:

(b) Termination of section 741: Section 741 shall not apply to any taxable year beginning after December 31, 1941.

(c) Amendments to section 742: Section 742 is amended to read as follows:

The amendment was agreed to.

The next amendment was, on page 411, line 15, after the words "shall be", to strike out "placed on an annual basis by dividing by the aggregate of the number of days in such taxable years

and multiplying by three hundred and sixty-five" and insert: "adjusted to such extent as the Commissioner, under regulations prescribed by him with the approval of the Secretary prescribes as necessary in order that such base period year shall reflect income for a period of 12 months. For the purposes of this section, a taxable year of a component corporation beginning within the base period which also begins with or within the taxable year of the acquiring corporation in which the acquisition occurred, or which also begins with or within the same base period year with which or within which began such taxable year of the acquiring corporation, shall be considered a taxable year of the acquiring corporation, and such taxable year shall be considered to have begun in the base period year with which or within which such taxable year of the acquiring corporation began."

The amendment was agreed to.

The next amendment was, on page 412, line 8, after the semicolon and the word "and", to strike out:

By subtracting from such sum, if for 2 or more years of the base period there was a minus amount, the sum of the minus amounts, excluding the greatest.

And insert:

"(1) If the tax under this subchapter is being computed for a taxable year not beginning after December 31, 1941, by subtracting from such sum, if for 2 or more years of the base period there was a minus amount, the sum of the minus amounts, excluding the greatest; or

"(2) If the tax under this subchapter is being computed for a taxable year beginning after December 31, 1941, by subtracting from such sum the sum of the minus amounts. If the amount used under the preceding sentence for the lowest year is less than 75 percent of the sum of the plus amounts reduced by the sum of the minus amounts for the other years in the base period divided by three, the amount which shall be used for such lowest year shall be 75 percent of the amount last ascertained.

The amendment was agreed to.

The next amendment was, on page 414, line 11, after the words "such corporation", to strike out "(except a corporation which became a component corporation of an acquiring corporation before the beginning of the acquiring corporation's first taxable year which began in 1940)."

The amendment was agreed to.

The next amendment was, on page 414, line 16, after the word "shall", to insert "(except in the case of a corporation which became a component corporation of its acquiring corporation before the beginning of the acquiring corporation's first taxable year which began in 1940)."

The amendment was agreed to.

The next amendment was, on page 414, after line 21, to insert:

(A) In the case of any such corporation to which paragraph (2) is not applicable.

The amendment was agreed to.

The next amendment was, on page 415, line 1, after the numerals "1940", to strike out "plus, in case it became, in such first taxable year but on a day in any other such corporation's taxable year beginning in 1939, an acquiring corporation with respect to such other corporation,

the daily invested capital of such other corporation for such day."

The amendment was agreed to.

The next amendment was, on page 415, after line 16, to insert:

"(2) In case the transaction by which a corporation became a component corporation of its acquiring corporation occurred in the last taxable year of such component corporation beginning in 1939 but on a day in a taxable year of such acquiring corporation beginning in 1940, the excess profits net income of such component corporation for each base period year described in paragraph (1) shall be an amount equal to 8 percent of the excess of—

(A) The daily invested capital of such component corporation for such day, over

(B) An amount equal to the same percentage of such daily invested capital as would be applicable under section 720 in reduction of the average invested capital of such component corporation for the 12-month period ending with the preceding day if such 12-month period constituted a taxable year and such section had been applicable to such taxable year.

The amendment was agreed to.

The next amendment was, on page 416, line 14, after the numerals "1940", to strike out "its and such other corporation's excess profits net income for each base period year described in paragraph (1) shall be determined in accordance with regulations prescribed by the Commissioner with the approval of the Secretary" and insert "the amounts computed under subparagraphs (A) and (B) of paragraphs (1) and (2) with respect to such corporations shall be adjusted, under regulations prescribed by the Commissioner with the approval of the Secretary, to such extent as may be necessary to prevent the excess profits net income of such corporations for the base period years described in paragraph (1) from reflecting money or property having been paid in by either of such corporations to the other for stock or as paid-in surplus or as a contribution to capital, or from reflecting stock of either having been paid in for stock of the other or as paid-in surplus or as a contribution to capital. For the purposes of this paragraph, stock in either such corporation which has in the hands of the other corporation a basis determined with reference to the basis of stock previously acquired by the issuance of such other corporation's own stock shall be deemed to have been paid in for the stock of such other corporation."

The amendment was agreed to.

The next amendment was, on page 418, line 19, after the word "Secretary", to insert "For the purposes of this paragraph, stock which has in the hands of the taxpayer or first corporation, as the case may be, a basis determined with reference to the basis of stock previously acquired by the issuance of the taxpayer's or first corporation's, as the case may be, own stock, shall be considered as having been acquired in consideration of the issuance of the taxpayer's or first corporation's, as the case may be, own stock."

The amendment was agreed to.

The next amendment was, on page 421, after line 17, to insert:

(d) Amendments to section 743: Section 743 is amended to read as follows.

The amendment was agreed to.

The next amendment was, on page 422, line 1, after the word "section", to strike out the numerals "741" and insert "742."

The amendment was agreed to.

The next amendment was, on page 424, after line 5, to strike out:

"Sec. 743. Foreign corporations.

"The term 'corporation' as used in this Supplement does not include a foreign corporation."

The amendment was agreed to.

The next amendment was, on page 424, line 25, after the word "that", to insert "(1) the last sentence of section 740 (c), as added by subsection (a) of this section shall be applicable to the computation of the tax for all taxable years beginning after December 31, 1939, and (2)."

The amendment was agreed to.

The next amendment was, on page 425, at the beginning of line 9, to insert "and except that referred to in clause (1)"; in line 11, after the word "shall", to insert "also"; and in the same line, after the word "applicable", to insert "to the computation of the tax for taxable years beginning after December 31, 1939."

The amendment was agreed to.

The next amendment was, on page 425, after line 13, to strike out:

Sec. 217. Amendments to Supplement B.

(a) Termination of Supplement B: Supplement B of chapter 2E (relating to highest bracket amount and invested capital) shall not apply to any taxable year beginning after December 31, 1931.

(b) Repeal of section 751: Section 751 (relating to determination of property paid in, etc., in certain cases) is repealed as of the date of its enactment.

And insert:

Sec. 228. Termination of Supplement B.

(a) Retroactive repeal of section 752:

(1) Section 752 (relating to highest bracket amount) is repealed as of the date of enactment of the Second Revenue Act of 1940.

(2) Section 710 (a) (2) (relating to application of highest bracket amount in computing tax) is repealed as of the date of enactment of the Second Revenue Act of 1940.

(b) Sections 750 and 751 (relating to determination of property paid in, etc., in certain cases) shall not apply with respect to any taxable year beginning after December 31, 1941.

The amendment was agreed to.

The next amendment was, on page 426, after line 18, to strike out:

"(a) Definitions: For the purpose of this section—

"(1) Exchange: The term 'exchange' means an exchange, to which section 112 (b) (3), (4), or (5), or so much of section 112 (c), (d), or (e) as refers to section 112 (b) (3), (4), or (5), or to which a corresponding provision of a prior revenue law, is or was applicable, by one corporation of its property wholly or in part for stock or securities of another corporation, or a transfer of property by one corporation to another corporation after December 31, 1917, the basis of which in the hands of such other corporation is or was determined under section 113 (a) (8) (B), or would have been so determined had such section been in effect.

"(2) Transferee upon an exchange: The term 'transferee upon an exchange' means a corporation which upon an exchange acquires property in exchange, wholly or in part, for its stock or securities, or which acquires property from another corporation after December 31, 1917, the basis of which in its hands is or was determined under

section 113 (a) (8) (B), or would have been so determined had such section been in effect."

And insert:

"(a) Definitions, etc.: For the purposes of this section—

"(1) 'Exchange', 'transferor', and 'transferee': The term 'exchange' means a transaction by which one corporation (hereinafter called 'transferee') receives property of another corporation (hereinafter called 'transferor') and the basis of the property received, in the hands of the transferee, for the purposes of section 718 (a) is determined by reference to the basis in the hands of the transferor.

"(2) Determination of basis of property received: The basis, in the hands of the transferee, of the property of the transferor received by the transferee upon the exchange shall be determined in accordance with section 718 (a).

The amendment was agreed to.

The next amendment was, on page 423, line 11, after the word "basis", to strike out "(for determining loss)."

The amendment was agreed to.

The next amendment was, on page 429, line 6, after the word "basis", to strike out "(for determining loss)."

The amendment was agreed to.

The next amendment was, on page 429, after line 8, to strike out:

"Sec. 761. Transactions in liquidation.

"(a) Definition of liquidating transaction: As used in this section, the term 'liquidating transaction' means:

"(1) The complete liquidation of another corporation under section 112 (b) (6) or the corresponding provision of a prior revenue law, or

"(2) The liquidation of another corporation, or a transaction having the effect of liquidating in whole or in part, some or all of the stock of another corporation—

"(A) if a gain or loss in whole or in part is not recognized either in a consolidated income or excess profits tax return or because of the provisions of section 112 (b) (4) or (5), or so much of section 112 (c) to (e), inclusive, as refers to section 112 (b) (4) or (5), or the corresponding provision of a prior revenue law, and

"(B) if the property received by the taxpayer has a basis described in section 113 (b) (2) (A).

"(b) Adjustment of equity invested capital: If property is received by the taxpayer in a liquidating transaction, the equity invested capital for each day following the transaction shall be adjusted as follows:

"(1) If the stock of the transferor which is in effect canceled upon such liquidating transaction is determined to have been acquired by the issuance of stock in transactions in which gain or loss in whole or in part was not recognized, there shall be included, in lieu of the amounts determined to be otherwise includible in the equity invested capital of the taxpayer with respect to such stock, the amount determined to be necessary to reflect the equity invested capital and the deficit in earnings and profits, if any, of the transferor with respect to such stock.

"(2) If such stock of the transferor is determined not to have been acquired by the issuance of stock in transactions in which gain or loss in whole or in part was not recognized, the equity invested capital of the taxpayer shall be adjusted to the extent necessary to reflect in its accumulated earnings and profits and its earnings and profits for the taxable year the portion of the earnings and profits or the deficit in earnings and profits, as the case may be, of the transferor accumulated subsequent to the date

which is determined to be the date of acquisition by the taxpayer of control (or, with respect to stock acquired subsequent to the acquisition of control, the date of acquisition of such stock) of the transferor and determined to be attributable to such stock. For the purposes of the computations under this paragraph, the basis of the property held by the transferor or its predecessor at the time of the acquisition of control (or of acquisition of the stock in the case of property determined to be attributable to stock acquired since the acquisition of control) which is attributable to such stock shall be, in lieu of the basis prescribed by section 113 or the corresponding provision of a prior revenue law, an amount determined by reference to the adjusted basis for determining loss upon a sale or exchange of such stock in the hands of the taxpayer or a predecessor. The basis so assigned shall apply, in lieu of the basis otherwise prescribed in computing any amount (determined by reference to the basis of such property in the hands of the transferor) entering into the computation of the equity invested capital of the taxpayer or any other corporation computing equity invested capital by reference to the equity invested capital of the taxpayer. For the purposes of this paragraph the adjusted basis for determining loss upon a sale or exchange of such stock shall be determined without regard to any adjustment authorized by the last sentence of section 113 (a) (11) which is already reflected in the earnings and profits or deficit in earnings and profits attributable to such stock.

"(c) Mergers and consolidations: In determining the amount of the adjustments under subsections (a) and (b), if a corporation owned stock in another corporation, and

"(1) such corporations are merged or consolidated in a statutory merger or consolidation, or

"(2) such corporations are parties to a liquidating transaction which results in the liquidation of such stock in a manner similar to that resulting from a statutory merger or consolidation,

for the purposes of this section such stock shall be considered to have been acquired by the corporation resulting from the merger, consolidation, or transaction, and the properties attributable thereto received by it in liquidation of such stock.

"(d) Determinations: Any determination which is required to be made under this section shall be made in accordance with regulations which shall be prescribed by the Commissioner with the approval of the Secretary."

And insert:

"Sec. 761. Invested capital adjustment at the time of tax-free intercorporate liquidations.

"(a) Definition of intercorporate liquidation: As used in this section, the term 'intercorporate liquidation' means the receipt (whether or not after December 31, 1941) by a corporation (hereinafter called the 'transferee') of property in complete liquidation of another corporation (hereinafter called the 'transferor'), to which

"(1) The provisions of section 112 (b) (6), or the corresponding provision of a prior revenue law, is applicable or

"(2) A provision of law is applicable prescribing the nonrecognition of gain or loss in whole or in part upon such receipt (including a provision of the regulations applicable to a consolidated income or excess-profits tax return but not including section 112 (b) (7), (9), or (10) or a corresponding provision of a prior revenue law), but only if none of such property so received is a stock or a security in a corporation the stock or securities of which are specified in the law applicable to the receipt of such property as stock or securities permitted to be received (or which would be

permitted to be received if they were the sole consideration) without the recognition of gain.

"(b) Definition of plus adjustment and minus adjustment: For the purposes of this section—

(1) Plus adjustment: The term 'plus adjustment' means the amount, with respect to an intercorporate liquidation, determined to be equal to the amount by which the aggregate of the amount of money received by the transferee in such intercorporate liquidation, and of the adjusted basis at the time of such receipt of all property (other than money) so received, exceeds the sum of—

"(A) The aggregate of the adjusted basis of each share of stock with respect to which such property was received; such adjusted basis of each share to be determined immediately prior to the receipt of any property in such liquidation with respect to such share, and

"(B) The aggregate of the liabilities of the transferor assumed by the transferee in connection with the receipt of such property, of the liabilities (not assumed by the transferee) to which such property so received was subject, and of any other consideration (other than the stock with respect to which such property was received) given by the transferee for such property so received.

"(2) Minus adjustment: The term 'minus adjustment' means the amount, with respect to an intercorporate liquidation, determined to be equal to the amount by which the sum of—

"(A) The aggregate of the adjusted basis of each share of stock with respect to which such property was received; such adjusted basis of each share to be determined immediately prior to the receipt of any property in such liquidation with respect to such share, and

"(B) the aggregate of the liabilities of the transferor assumed by the transferee in connection with the receipt of such property, of the liabilities (not assumed by the transferee) to which such property so received was subject, and of any other consideration (other than the stock with respect to which such property was received) given by the transferee for such property so received exceeds the aggregate of the amount of the money so received and of the adjusted basis, at the time of receipt, of all property (other than money) so received.

"(3) Rules for application of paragraphs (1) and (2): In determining the plus adjustment or minus adjustment with respect to any share, the computation shall be made in the same manner as is prescribed in paragraphs (1) and (2) of this subsection, except that there shall be brought into account only that part of each item which is determined to be attributable to such share.

"(c) Rules for the application of this section:

"(1) Stock having cost basis: The property received by a transferee in an intercorporate liquidation attributable to a share of stock having in the hands of the transferee a basis determined to be a cost basis, shall be considered to have, for the purposes of subsection (b), an adjusted basis at the time so received determined as follows:

"(A) The aggregate of the property (other than money) held by the transferor at the time of the acquisition by the transferee of control of the transferor (or, if such share was acquired after the acquisition of such control, at the time of the acquisition of such share, or, if such control was not acquired, at the time immediately prior to the receipt of any property in the intercorporate liquidation in respect of such share) shall be deemed to have an aggregate basis equal to the amount obtained by (1)

multiplying the amount of the adjusted basis at such time of such share in the hands of the transferor by the aggregate number of share units in the transferor at such time (the interest represented by such share being taken as the share unit), and (2) adjusting for the amount of money on hand and the liabilities of the transferor at such time.

"(B) The basis which property of the transferor is deemed to have under subparagraph (A) at the time therein specified shall be used in determining the basis of property subsequently acquired by the transferor the basis of which is determined with reference to the basis of property specified in subparagraph (A).

"(C) The basis which property of the transferor is deemed to have under subparagraphs (A) and (B) at the time therein specified shall be used in determining all subsequent adjustments to the basis of such property.

"(D) The property so received by the transferee shall be deemed to have, at the time of its receipt, the same basis it is deemed to have under the foregoing provisions of this paragraph in the hands of the transferor, or in the case of property not specified in subparagraph (A) or (B), the same basis it would have had in the hands of the transferor.

"(E) Only such part of the aggregate property received by the transferee in the intercorporate liquidation as is attributable to such share shall be considered as having the adjusted basis which property is deemed to have under subparagraphs (A), (B), (C), and (D) of this paragraph.

"(2) Basis of stock not a cost basis: The property received by a transferee in an intercorporate liquidation attributable to a share of stock having in the hands of the transferee a basis determined to be a basis other than a cost basis shall, for the purposes of subsection (b), be considered to have, at the time of its receipt, the basis it would have had had the first sentence of section 113 (a) (15) been applicable.

"(3) Definition of control: As used in this subsection, the term 'control' means the ownership of stock possessing at least 80 percent of the total combined voting power of all classes of stock entitled to vote and the ownership of at least 80 percent of the total number of shares of all other classes of stock (except nonvoting stock which is limited and preferred as to dividends), but only if in both cases such ownership continues until the completion of the intercorporate liquidation.

"(d) Adjustment of equity invested capital: If property is received by the transferee in an intercorporate liquidation, in computing the equity invested capital of the transferee for any day following the completion of such intercorporate liquidation—

"(1) with respect to any share of stock in the transferor having in the hands of the transferee, immediately prior to the receipt of any property in such intercorporate liquidation, a basis determined to be a cost basis, the earnings and profits or deficit in earnings and profits of the transferee shall be computed as if on the day following the completion of such intercorporate liquidation the transferee had realized a recognized gain equal to the amount of the plus adjustment in respect of such share, or had sustained a recognized loss equal to the amount of the minus adjustment in respect of such share;

"(2) with respect to any share of stock in the transferor having in the hands of the transferee, immediately prior to the receipt of any property in such intercorporate liquidation, a basis determined to be a basis other than a cost basis, there shall be treated as an amount includible in the sum specified in section 718 (a) the amount of the plus adjustment with respect to such share, or

as an amount includible in the sum specified in section 718 (b) the amount of the minus adjustment with respect to such share.

"(e) Invested capital basis: The adjusted basis which property received by the transferee in an intercorporate liquidation is considered to have under the provisions of subsection (c) at the time of its receipt shall be thereafter treated as the adjusted basis, in lieu of the adjusted basis otherwise prescribed, in computing any amount, determined by reference to the basis of such property in the hands of the transferee, entering into the computation of the invested capital of the transferee, or of any other corporation the computation of the invested capital of which is determined by reference to the basis of such property in the hands of the transferee.

"(f) Statutory mergers and consolidations: If a corporation owns stock in another corporation and such corporations are merged or consolidated in a statutory merger or consolidation, then for the purposes of this section and section 718 such stock shall be considered to have been acquired (in such statutory merger or consolidation) by the corporation resulting from the statutory merger or consolidation, and the properties of such other corporation attributable to such stock to have been received by such resulting corporation as a transferee from such other corporation as a transferor in an intercorporate liquidation.

"(g) Determinations:

"(1) Regulations: Any determination which is required to be made under this section (including determinations in applying this section in cases where there is a series of transferees of the property and cases where the stock of the transferor is acquired by the transferee from another corporation, and the determinations of the basis and adjusted basis which property or items thereof have or are considered to have) shall be made in accordance with regulations which shall be prescribed by the Commissioner with the approval of the Secretary. If the transferor or the transferee is a foreign corporation, the provisions of this section shall apply to such extent and under such conditions and limitations as may be provided in such regulations.

"(2) Application to liquidation extending over long period: The Commissioner is authorized to prescribe rules similar to those provided in this section with respect to the days within the period beginning with the date on which the first property is received in the intercorporate liquidation and ending with the day of its completion; and the extent to which, and the conditions and limitations under which, such rules are to be applicable."

The amendment was agreed to.

The next amendment was, on page 441, after line 21, to strike out:

(b) Retroactive application of rules on exchanges: The amendment made by this section inserting section 760 shall be applicable to taxable years beginning after December 31, 1939.

The amendment was agreed to.

The next amendment was, on page 442, after line 17, to insert:

(d) Optional retroactivity of amendments to 1940 and 1941: The amendment made by this section inserting section 761 shall also be applicable in the computation of the tax for all taxable years beginning after December 31, 1939, if the taxpayer, within the time and in the manner and subject to such regulations as the Commissioner, with the approval of the Secretary prescribes, elects to have such amendment apply and in such case the provisions of section 718 (a) (5), section 718

(b) (4), and section 718 (c) (4) shall not apply in such computations.

The next amendment was, on page 443, after line 3, to insert:

PART II—POST-WAR REFUND OF EXCESS-PROFITS TAX

Sec. 250. Post-war refund of excess-profits tax.

Subchapter E of chapter 2 is amended by inserting at the end thereof the following new part:

"PART III—POST-WAR REFUND OF EXCESS PROFITS TAX

"Sec. 780. Post-war refund of excess-profits tax.

"(a) In general: The Secretary of the Treasury is authorized and directed to establish a credit to the account of each taxpayer subject to the tax imposed under this subchapter, for each taxable year beginning after December 31, 1941, and not beginning after the date of cessation of hostilities in the present war, of an amount equal to 10 percent of the tax imposed under this subchapter for each such taxable year.

"(b) Application of credit to purchase of bonds: Within 3 months after the payment of the amount of the excess profits tax shown on the return for a taxable year to which subsection (a) applies, if the payment is made before 3 months before the date of maturity of bonds for such year under subsection (c), there shall be issued to and in the name of the taxpayer bonds of the United States in an aggregate amount equal to 10 percent of the tax paid in respect of which a credit is provided under subsection (a), and the credit established under subsection (a) for such taxable year is hereby made available for the purchase of such bonds.

"(c) Terms and maturity of bonds: The bonds provided for in subsection (a) shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which bonds may be issued under such act are extended to include the purpose for which bonds are required to be issued under this section. Such bonds shall bear no interest, shall be nonnegotiable, shall not be transferable by assignment, pledge, or otherwise, and shall be redeemable after the date of cessation of hostilities in the present war and before maturity (at the option of the United States) in whole or in part upon 3 months' notice. Such bonds for any taxable year to which this section applies shall mature on the last day of that calendar year, beginning after the date of cessation of hostilities in the present war, which is shown in the following table to be applicable to such bonds for such year:

Calendar year (beginning after cessation of hostilities) on last day of which bonds mature

Bonds purchased with the credit for any taxable year beginning—

Within the calendar year 1942... Second.

Within the calendar year 1943... Third.

Within the calendar year 1944... Fourth.

After Dec. 31, 1944... Fifth.

"(d) Exemption of proceeds from tax: The proceeds of any such bond upon redemption shall not be included in gross income.

"(e) Date of cessation of hostilities in the present war: As used in this section, the term 'date of cessation of hostilities in the present war' means the date on which hostilities in the present war between the United States and the governments of Germany, Japan, and Italy cease, as fixed by proclamation of the President or by concurrent resolution of the two Houses of Congress, whichever date is earlier, or in case the hostilities between the United States and such governments do not cease at the same time, such date as may be so fixed as an appropriate date for the purposes of this section.

"Sec. 781. Special rules for application of section 780.

"(a) Effect of deficiencies: If a deficiency in respect of the excess profits tax for any taxable year for which a credit is provided in section 780 (a) is paid by the taxpayer before 3 months before the date of maturity of the bonds for such year, an amount of such credit equal to 10 percent of the excess of the tax imposed by this subchapter on the basis of which the deficiency was determined, over the tax imposed by this subchapter as previously computed and paid shall be available, as provided in section 780 (b), for the purchase of bonds as provided under such section, and there shall be issued to the taxpayer bonds under such section in an amount equal to such excess and with the same maturity as in the case of bonds issued with respect to the taxable year with respect to which the deficiency is determined.

"(b) Effect of refunds: If an overpayment of the tax imposed by this subchapter for any taxable year for which a credit is provided in section 780 (a) is refunded or credited to the taxpayer under the internal revenue laws, the credit, if any, provided in such section then existing in favor of the taxpayer shall be reduced by an amount equal to 10 percent of the excess of the tax imposed by this subchapter on the basis of which such tax (in respect of which the internal revenue refund or credit was made) was previously computed and paid, over the tax imposed by this subchapter as determined in connection with the determination of the amount of the overpayment. In such a case, if such credit provided in section 780 (a) is less than the amount by which it is required to be reduced, or if there is no such credit then existing in favor of the taxpayer, the excess of such amount over the amount of such credit, if any, shall be carried forward as a charge against the taxpayer to be applied in reduction of a subsequent credit under section 780 (a); and if no such subsequent credit is made in favor of the taxpayer, the amount of such charge (without interest) shall be paid by the taxpayer to the United States or the amount of bonds previously issued to the taxpayer under section 780 (b) shall be adjusted on account of such charge.

"(c) Tax payments after cut-off date: In the case of a payment of the tax imposed by this subchapter shown on the return for any taxable year for which a credit is provided in section 780 (a), or the payment of a deficiency in respect of such tax for any such taxable year, after the date prescribed in section 780 (b) or 781 (a) but before the date of maturity of the bonds with respect to such taxable year under section 780 (c), the amount of the credit under section 780 (a) for such taxable year attributable to such payment shall, so far as practicable, be available, as provided in section 780 (b), for the purchase of bonds as provided under such section, and, so far as practicable, there shall be issued to the taxpayer bonds under such section with the same maturity as bonds issued with respect to such taxable year. To the extent that it is not practicable to issue bonds against such amount of the credit, the taxpayer shall be paid in cash. In case after the date of maturity of the bonds of any taxable year under section 780 (c) there is any credit under section 780 (a) remaining in favor of the taxpayer, attributable to such year, such remainder shall be paid to the taxpayer in cash.

"(d) Limitation: The credit under section 780 (a) for any taxable year shall not be greater than the excess of the amount of the tax paid under this subchapter to the United States (and not credited or refunded under the internal revenue laws) in respect of such year over the amount of tax which would be payable to the United States if the excess-profits tax rate were 81 percent, or if the limitation of section 710 is applicable if the

amount determined under such section were reduced by 10 percent.

"Sec. 782. Regulations.

"The Secretary of the Treasury is authorized to prescribe, from time to time, such rules and regulations as may be necessary to carry out the preceding provisions of this part.

"Sec. 783. Credit for debt retirement.

"(a) General rule: An amount equal to 40 percent of the amounts paid during the taxable year in repayment of the principal of indebtedness shall be allowed as a credit against the tax for such year imposed by this subchapter.

"(b) Limitations: The credit under subsection (a) with respect to any taxable year shall in no event exceed whichever of the following amounts is the lesser—

"(1) The amount of the post-war credit, provided for in section 780 (a), for the taxable year, computed without its reduction on account of the debt repayment credit for the taxable year.

"(2) An amount equal to 40 percent of the amount by which the smallest amount of indebtedness during the period beginning September 1, 1942, and ending with the close of the preceding taxable year exceeds the amount of indebtedness as of the close of the taxable year.

"(3) In case such taxable year begins in 1942 prior to September 2, 1942, and ends after September 1, 1942, an amount equal to 40 percent of the amount by which the amount of indebtedness as of September 1, 1942, exceeds the amount of indebtedness as of the close of the taxable year.

"(4) In case such taxable year ends before September 1, 1942, zero."

No interest shall be allowed or paid by the United States on account of any overpayment of tax attributable to any credit allowed under this section.

"(c) Reduction of credit and of bonds outstanding under section 780: If a credit is allowed for debt repayment in a taxable year pursuant to this section, the amount of such credit or refund shall be deducted from the credit under section 780 (a) and the amount of bonds issued under section 780 shall, to the extent necessary, be correspondingly adjusted.

"(d) Definition of indebtedness: For the purposes of this section the term 'indebtedness' means any indebtedness of the taxpayer or for which the taxpayer is liable evidenced by a bond, note, debenture, bill of exchange, certificate, or other evidence of indebtedness, mortgage, or deed of trust."

Mr. DANAHER. Mr. President, I call the attention of the Senator from Georgia to interesting language in lines 14 and 15, on page 443, and ask if he chooses to interpret for us some relationship of that language to a given date. It will be noticed the Secretary of the Treasury is authorized to create a post-war credit, and it is further to be perceived that the post-war credit will not be allowed for any year, "beginning after the date of the cessation of hostilities in the present war." Is there contemplated the establishment of a definite date by proclamation of the President or by concurrent resolution of the Congress, or is the date somehow to be fixed?

Mr. GEORGE. The Senator will find it is fixed on page 445, line 4, in the paragraph headed "Date of cessation of hostilities in the present war." It is to be fixed "by proclamation of the President, or by concurrent resolution of the two Houses of Congress, whichever date is earlier."

Mr. DANAHER. That definition will relate back to section 780?

Mr. GEORGE. Yes.

Mr. DANAHER. And run right through it?

Mr. GEORGE. Yes.

Mr. DANAHER. I thank the Senator.

Mr. LA FOLLETTE. Mr. President, I ask that section 780, beginning on page 443 and section 781 on page 445—

The PRESIDING OFFICER. The Chair will state the sections to which the Senator refers are parts of section 250.

Mr. LA FOLLETTE. Yes, they are parts of section 250. I think I will ask to have that section passed over. I will state to the Senator from Georgia that it affects an amendment which I desire to offer to the corporate structure. Therefore, I ask that this section may be passed over, in order that amendments which I may desire to offer and which would be related to the post-war credit provision may be considered.

The PRESIDING OFFICER. Without objection, section 250 will be passed over.

The next amendment reported by the committee will be stated.

The next amendment was, on page 450, after line 5, to strike out:

TITLE III—CAPITAL STOCK AND DECLARED VALUE EXCESS PROFITS TAXES

TITLE III—TERMINATION OF CAPITAL STOCK AND DECLARED VALUE EXCESS PROFITS TAXES

Sec. 301. Capital stock tax.

(a) Technical amendment: Section 1200 (a) and (b) (relating to rate of capital stock tax) are amended by striking out the word "adjusted" wherever occurring therein.

(b) Annual declaration of value: Section 1202 (relating to declaration of value) is amended to read as follows: "Sec. 1202. Declared value.

"(a) Declaration of value: The declared value shall be the value as declared by the corporation in its return for the year (which declaration of value cannot be amended). The value declared by the corporation in its return shall be as of the close of its last income tax taxable year ending with or prior to the close of the capital stock tax taxable year (or as of the date of organization in the case of a corporation having no income tax taxable year ending with or prior to the close of such declaration year).

"(b) Credit for China Trade Act corporations: For the purpose of the tax imposed by section 1200 there shall be allowed in the case of a corporation organized under the China Trade Act, 1922, 42 Stat. 849 (U. S. C., 1940 ed., title 15, ch. 4), as a credit against the declared value of its capital stock, an amount equal to the proportion of such declared value which the par value of the shares of stock of the corporation, owned on the last day of the taxable year by (1) persons resident in China, the United States or possessions of the United States, and (2) individual citizens of the United States or China wherever resident, bears to the par value of the whole number of shares of stock of the corporation outstanding on such date. For the purposes of this subsection shares of stock of a corporation shall be considered to be owned by the person in whom the equitable right to the income from such shares is in good faith vested; and as used in this subsection the term 'China' shall have the same meaning as when used in the China Trade Act, 1922."

(c) Returns: The last sentence of section 1203 (b) (2) relating to extensions of time for filing capital stock tax returns) is amended to read as follows: "With respect to the years ended June 30, 1941, and June 30, 1942, the extension may be for no more than 90 days."

(d) Prior returns effective: If a return for the year ended June 30, 1942, is filed under chapter 6 of the Internal Revenue Code, with

out regard to the amendment thereof as made by this act, the adjusted declared value reported by the corporation on such return (whether or not correct) shall constitute the declared value for the purposes of such chapter 6, as amended by this act, unless a different value is declared on a subsequent return for such year received within the prescribed filing period.

(e) Effective date: This section shall be effective only with respect to the year ended June 30, 1942, and succeeding years.

The amendment was agreed to.

The next amendment was, on page 452, after line 14, to strike out:

Sec. 302. Declared value excess-profits tax.

(a) Technical amendments:

(1) Section 600 (relating to rate of declared value excess-profits tax) is amended by striking out the word "adjusted" wherever occurring therein.

(2) Section 601 (relating to declared value) is amended by striking out the word "adjusted" wherever occurring therein.

(b) Effective date. This section shall be effective only with respect to income-tax taxable years ending after June 30, 1942, and succeeding years.

The amendment was agreed to.

The next amendment was, at the top of page 453, to insert:

Sec. 301. Capital stock tax terminated.

The capital stock tax imposed by section 1200 shall not apply to any taxpayer in respect of the year ending June 30, 1942, or any succeeding year.

The amendment was agreed to.

The next amendment was, on page 453, after line 4, to insert:

Sec. 302. Declared value excess-profits tax terminated.

The declared value excess-profits tax imposed by section 600 shall not apply to any taxpayer in respect of any income-tax taxable year ending after June 30, 1942.

The amendment was agreed to.

The next amendment was, on page 454, line 11, after the words "using the," to insert "adjusted."

The amendment was agreed to.

The next amendment was, on page 455, after line 15, to insert:

(c) Taxable years to which amendments applicable. The amendments made by this section shall be applicable to taxable years beginning after December 31, 1939.

The amendment was agreed to.

The next amendment was, on page 455, after line 19, to strike out:

Sec. 304. Technical amendments made necessary by change in base for corporation tax.

Section 602 (relating to net income for purposes of the declared value excess-profits tax) is amended to read as follows:

"Sec. 602. Net income.

"For the purposes of this subchapter the net income shall be the same as the net income for income tax purposes for the year in respect of which the tax under section 600 is imposed, computed without the deduction of the tax imposed by section 600, but with a credit against net income equal to the credit for dividends received provided in section 26 (b) of chapter 1."

The amendment was agreed to.

The next amendment was, on page 456, after line 16, to insert:

(a) Transfers of community property in contemplation of death, etc.: Section 811 (d) (relating to revocable transfers) is

amended by adding at the end thereof the following new paragraph:

"(5) Transfers of community property in contemplation of death, etc.: For the purposes of this subsection and subsection (c), a transfer of property held as community property by the decedent and surviving spouse under the law of any State, Territory, or possession of the United States, or any foreign country, shall be considered to have been made by the decedent, except such part thereof as may be shown to have been received as compensation for personal services actually rendered by the surviving spouse or derived originally from such compensation or from separate property of the surviving spouse."

The amendment was agreed to.

The next amendment was, on page 458, at the beginning of line 5, to strike out "(b)" and insert "(c)."

The amendment was agreed to.

Mr. NORRIS. Mr. President, I should like to ask the Senator from Georgia what is meant by the words on page 458, in line 8, reading "Section 811 (f) (relating to powers of appointment)."

What appointment does that mean?

Mr. GEORGE. Broadly speaking, it is the power to determine who shall take property at a particular time or at the date of death. It is the power to dispose of the property which is sometimes taxable as an estate, and sometimes taxable as a gift. These sections have to do with the power to dispose of property.

Mr. NORRIS. I do not understand the meaning of the words "powers of appointment." To what appointments do they refer? Do they refer to an administrator or executor or someone having to do with an estate?

Mr. GEORGE. It has to do with the grant of the power to convey property to a particular person.

Mr. NORRIS. Contained in a will?

Mr. GEORGE. In a will or deed of trust. That is what is meant. There were some amendments made to that section but not on page 458. On page 459, it will be seen that the following words are used:

(A) A power to appoint within a class which does not include any others than the spouse of the decedent, spouse of the creator of the power, descendants of the decedent or his spouse"—

And so forth. Then, there are some subsequent amendments made to this particular section 403.

The PRESIDING OFFICER. The next amendment of the committee will be stated.

The next amendment was, on page 459, after line 10, to strike out "decedent, descendants of the decedent or his spouse", and insert "decedent, spouse of the creator of the power, descendants of the decedent or his spouse, descendants of the decedent or his spouse, descendants of the creator of the power or his spouse."

The amendment was agreed to.

The next amendment was, on page 460, after line 2, to strike out:

If a power to appoint is exercised to any extent by creating another power to appoint, such first power shall not be considered excepted under subparagraph (A) or (B) from the definition of power of appointment.

And insert:

If a power to appoint is exercised by creating another power to appoint, such first power shall not be considered excepted under subparagraph (A) or (B) from the definition of power of appointment to the extent of the value of the property subject to such second power to appoint. For the purposes of the preceding sentence the value of the property subject to such second power to appoint shall be its value unreduced by any precedent or subsequent interest not subject to such power to appoint.

The amendment was agreed to.

The next amendment was, on page 462, line 8, after the word "estate," to insert "determined under section 935 (c), or section 861, as the case may be. If there is more than one such person the executor shall be entitled to recover from such persons in the same ratio."

The amendment was agreed to.

The next amendment was, on page 462, after line 11, to strike out:

(d) Powers with respect to which amendments not applicable: The amendments made by this section shall not apply with respect to a power to appoint, created on or before the date of enactment of this act, which is not exercisable in favor of the decedent, his estate, his creditors, or the creditors of his estate if such power to appoint was released by the decedent before 2 years after the date of enactment of this act or if such power to appoint was exercised by the decedent on or before the date of enactment of this act, and shall not apply with respect to a power to appoint released on or before the date of the enactment of this act.

And insert:

(1) The amendments made by this section shall not apply with respect to a power to appoint, created on or before the date of the enactment of this act, which is other than a power exercisable in favor of the decedent, his estate, his creditors, or the creditors of his estate, unless such power is exercised after the date of the enactment of this act.

(2) The amendments made by this section shall not become applicable with respect to a power to appoint created on or before the date of enactment of this act, which is exercisable in favor of the decedent, his estate, his creditors, or the creditors of his estate, if at such date the donee of such power is under a legal disability to release such power, until 6 months after the termination of such legal disability. For the purposes of the preceding sentence, an individual in the military or naval forces of the United States shall, until the termination of the present war, be considered under a legal disability to release a power to appoint.

(3) The amendments made by this section shall not apply with respect to a power to appoint released on or before the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on page 464, line 6, after the word "extent", to insert "of the excess over \$40,000."

The amendment was agreed to.

The next amendment was, on the same page, line 23, after the word "transfer", to insert "for the purposes of clause (B) of this paragraph, the term 'incident of ownership' does not include a reversionary interest."

The amendment was agreed to.

The next amendment was, on page 465, after line 23, to insert:

(b) Liability of life insurance beneficiaries: Section 826 (c) (relating to apportionment of liability of beneficiaries) is amended to read as follows:

"(c) Liability of life insurance beneficiaries: Unless the decedent directs otherwise in his will, if any part of the gross estate upon which tax has been paid consists of proceeds of policies of insurance upon the life of the decedent receivable by a beneficiary other than the executor, the executor shall be entitled to recover from such beneficiary such portion of the total tax paid as the proceeds in excess of \$40,000 of such policies bear to the sum of the net estate and the amount of the exemption allowed in computing the net estate, determined under section 935 (c). If there is more than one such beneficiary the executor shall be entitled to recover from such beneficiaries in the same ratio."

The amendment was agreed to.

The next amendment was, on page 466, line 22, after the word "if", to strike out "on such date the decedent possessed no" and insert "at no time after such date the decedent possessed an."

The amendment was agreed to.

The next amendment was, on page 467, line 5, after the word "new", to strike out "sentence" and insert "sentences."

The amendment was agreed to.

The next amendment was, on page 467, line 7, after the word "in", to strike out "paragraph" and insert "paragraphs."

The amendment was agreed to.

The next amendment was, on page 472, line 25, after the word "in", to strike out "net" and insert "total."

The amendment was agreed to.

The next amendment was, on page 474, line 17, after the word "in", to strike out "net" and insert "total."

The amendment was agreed to.

The next amendment was, on page 477, line 19, after the word "if", to strike out "such disclaimer becomes irrevocable" and insert "the disclaimer is made."

The amendment was agreed to.

The next amendment was, on page 478, line 4, after the word "if", to strike out "such disclaimer becomes irrevocable" and insert "the disclaimer is made."

The amendment was agreed to.

The next amendment was, on page 481, line 13, after the word "section", to strike out "407" and insert "405 (c)."

The amendment was agreed to.

The next amendment was, on page 482, after line 7, to insert:

Sec. 413. Period for filing petition extended in certain cases.

(a) Period extended: Section 871 (a) (1) (relating to period for filing petition with Board of Tax Appeals) is amended by inserting at the end thereof the following new sentence: "If the notice is addressed to an executor outside the States of the Union and the District of Columbia the period specified in this paragraph shall be 150 days in lieu of 90 days."

(b) Effective date: The amendment made by this section shall be applicable with respect to notices of deficiency mailed after the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on the same page, after line 19, to strike out:

Sec. 413. Specific exemption.

(a) Amount of exemption: Section 935 (c) (relating to the exemption for the purposes of the additional estate tax) is amended by striking out "\$40,000" and inserting in lieu thereof "\$60,000."

(b) Technical amendment: The first sentence of section 826 (c) (relating to liability of life insurance beneficiaries) is amended by striking out ", in excess of \$40,000."

The amendment was agreed to.

The next amendment was, on page 484, line 2, after the word "individual", to strike out "descendants of such individual or his spouse" and insert "spouse of the creator of the power, descendants of such individual or his spouse, descendants (other than such individual) of the creator of the power or his spouse."

The amendment was agreed to.

The next amendment was, on page 484, after line 17, to strike out:

If a power to appoint is exercised to any extent by creating another power to appoint, such first power shall not be considered excepted under paragraph (1) or (2) from the definition of power of appointment.

And insert:

If a power to appoint is exercised by creating another power to appoint, such first power shall not be considered excepted under paragraph (1) or (2) from the definition of power of appointment to the extent of the value of the property subject to such second power to appoint. For the purposes of the preceding sentence the value of the property subject to such second power to appoint shall be its value unreduced by any precedent or subsequent interest not subject to such power to appoint.

The amendment was agreed to.

The next amendment was, on page 485, after line 4, to strike out:

(b) Powers with respect to which amendments not applicable: The amendments made by this section shall not apply with respect to a power to appoint, created on or before the date of enactment of this act, which is not exercisable in favor of the individual, his estate, his creditors, or the creditors of his estate if the power to appoint was released by such individual before 2 years after the date of enactment of this act or if the power to appoint was exercised by such individual on or before the date of enactment of this act, and shall not apply with respect to a power to appoint released on or before the date of the enactment of this act.

And insert:

(b) Powers with respect to which amendments not applicable:

(1) The amendments made by this section shall not apply with respect to a power to appoint, created on or before the date of enactment of this act, which is other than a power exercisable in favor of the donee of the power, his estate, his creditors, or the creditors of his estate, unless such power is exercised after the date of enactment of this act.

(2) The amendments made by this section shall not become applicable with respect to a power to appoint, created on or before the date of enactment of this act, which is exercisable in favor of the donee of the power, his estate, his creditors, or the creditors of his estate, if at such date the donee of such power is under a legal disability to release such power, until 6 months after the termination of such legal disability. For

the purposes of the preceding sentence, an individual in the military or naval forces of the United States shall, until the termination of the present war, be considered under a legal disability to release a power to appoint.

The amendment was agreed to.

The next amendment was, on page 486, at the beginning of line 16, to strike out "(c) Community Property. All gifts of community property" and insert "(d) Community Property. All gifts of property held as community property under the law of any State, Territory, or possession of the United States, or any foreign country."

The amendment was agreed to.

The next amendment was, on page 487, line 13, after the word "gifts", to strike out "in trust or."

The amendment was agreed to.

The next amendment was, on page 488, after line 17, to insert:

Sec. 456. Period for filing petition extended in certain cases.

(a) Period extended: Section 1012 (a) (1) (relating to period for filing petition with Board of Tax Appeals) is amended by inserting at the end thereof the following new sentence: "If the notice is addressed to a donor outside the States of the Union and the District of Columbia, the period specified in this paragraph shall be 150 days in lieu of 90 days."

(b) Effective date: The amendment made by this section shall be applicable with respect to notices of deficiency mailed after the date of the enactment of this act.

Mr. NORRIS. Mr. President, I should like to ask the Senator from Georgia whether the amendments we have been considering on these latter pages, particularly on page 483, are applicable to the question I asked the Senator earlier in the day about the gift taxes. Specifically, I think the Senator said that the bill provides for taxes to be levied on gifts, that the exemption was decreased from \$4,000 to \$3,000, and that the total amount of the gifts in the life of any person could not exceed \$30,000. Am I right about that?

Mr. GEORGE. The aggregate gifts within the lifetime of a taxpayer shall not exceed \$30,000.

Mr. NORRIS. When I asked the Senator the question I had in mind—and I am thinking of it now—that if these amendments all became law no one would get any exemption from the payment of gift taxes if his gifts amounted to more than \$30,000 during his entire life, and they could not exceed \$3,000 in any one year.

Mr. GEORGE. They could not exceed \$3,000 to any one person. Under the gift tax law the taxpayer may make a gift of not more than \$3,000 to any one person.

Mr. NORRIS. Could he make as many gifts as he pleased?

Mr. GEORGE. As many as he wished; but there is a limitation on the aggregate of the gifts he may make during his lifetime.

Mr. NORRIS. That would be \$30,000?

Mr. GEORGE. Thirty thousand dollars; the Senator is correct.

Mr. NORRIS. I should like to call the attention of the Senator, and I hope of the Senate, to the peculiar kind of gifts

about which I happen to know personally, made by a great many persons, who make presents of what are ordinarily known as baby bonds, which mature in 10 years. Such a practice is very desirable from any point of view, it seems to me. It enables a man of wealth to give away his property and not to have to pay a tax when he does it. He is giving it away in a charitable spirit, perhaps, which is very exemplary. At the same time, it increases the sale of the so-called baby bonds.

I know of one who is giving away a certain amount of that kind of bonds to various persons, mostly children, who will be from 18 to 22 years of age at the time of the maturity of the bonds. The result is the sale of a great many bonds on the part of the Government, the particular bonds to which I have referred, which the Government is making strenuous efforts to sell. At the same time, the bonds will provide for those to whom they are given at a time when they will be reaching maturity, and probably would like to go to college, or perhaps to be married. It will afford them an income at a time of life when they may be starting in business. It is very desirable that a person of wealth, who wishes to dispose of his property in that way, may be able to do it when his action is not defeating the object of the law, which is to prevent very large gifts and the entailment of property from father to son. It is a practice which, it seems to me, we as legislators should not restrict. We should give ample opportunity for such a practice to be continued. Such gifts have very beneficial results. If the owner of the property desires, it gives him an opportunity to divide his property into amounts comparatively small. If the pending bill shall become the law, such a gift may not exceed \$3,000 in any one year.

As I have said, I have personal knowledge of one instance of a person buying a certain number of these bonds every month, and giving them away to younger people, who will receive payment on them 10 years from the time they were purchased. If this purchaser were limited to \$30,000 as the total amount on which he could have exemption during his lifetime, it would be impossible for him to exceed \$30,000 in such gifts. It seems to me people should be encouraged to make that kind of a gift, rather than discouraged.

In other words, Mr. President, a law was enacted for the payment of a tax on gifts. The real object of the law was to prevent a man of great wealth from entailing his property, and giving it away from year to year, so that his beneficiaries could escape taxation under the inheritance tax law.

I am inclined to believe that if the amendments I have been discussing become law, we will curtail very greatly the beneficent practice to which I have referred. A man may wish to make a gift to someone which will mature at a time when the beneficiary will have reached an age when he will need money to start in business or obtain an education.

Mr. McKELLAR. Will the Senator yield?

Mr. NORRIS. I yield.

Mr. McKELLAR. Would not the same result be obtained by merely excepting gifts of the particular kind of bonds to which the Senator has referred?

Mr. NORRIS. I should think so.

Mr. McKELLAR. That would be a better way to reach the objective the Senator has in mind. The law, seeking to prevent large gifts by the imposition of taxes, is proper, generally speaking, but I can see that making an exception would add largely to the sale of bonds.

Mr. NORRIS. The result which would follow from such an exception would be very desirable, especially at the present time, when we are straining heaven and earth to promote the sale of Government bonds. It would afford an opportunity for men of large means, who would like to help young people to obtain a college education, perhaps, to provide them with an income at a time when the need would arise.

If we do not provide for such an exception as has been suggested by the Senator from Tennessee, we may bring to an end a practice which I think has been growing among many people who desire, from patriotic motives, to serve the Government by the purchase of bonds. They are able to do some good with their money by making it available to young men and women who may need it to get a start in life, at a time when the money will be needed to enable them to get an education, to go into business, or for other worth-while purposes, as the bonds mature.

For instance, let us say that such a purchaser starts by giving a young man or a young woman one bond every month, and keeps it up for 10 years. In so doing he makes it possible for the beneficiary to receive an income of \$25 a month, and keep the capital intact all the time, if the law remains unchanged. In 10 years he would have a bond maturing every month in the amount of \$100. He could keep \$25, and put the \$75 right back into another bond, or he could take \$100 a month and make no further investment. The possibilities are very great to induce people to economize, to be thrifty, and at the same time help the Government materially in its effort to win the war.

I should like to ask the Senator from Georgia if he would be willing to accept an amendment which would, with any restrictions he wishes to impose, make this section inapplicable to cases in which gifts are made of bonds of the class to which I have referred.

Mr. GEORGE. I think perhaps I misunderstood the Senator when he propounded his inquiry. Either he misunderstood me or I misunderstood him.

Under the gift-tax law there is an exclusion of \$30,000, but the donor may give \$3,000 to any one person in any one year without paying a tax. So, if a man has four children under 10 years of age, he could give to each of them \$30,000 in the course of 10 years. He could give \$3,000 each year to each child, or \$12,000 to the four children. I perhaps misled the Senator unintentionally, but \$30,000 is the basic exclusion in the gift-tax law. So

that if I correctly understand the situation a man may give \$3,000 each to 10 children in 1 year without paying any gift tax on the gift. That is, the man has a basic exclusion of \$30,000. I think perhaps unwittingly led the Senator into a wrong conclusion.

Mr. NORRIS. Mr. President, I should like to call the attention of the Senator to the limitation of \$30,000, which still applies to any one person's total donation, as I understand. The donor never could, in any subsequent year, give a total of more than \$30,000 without being compelled, of course, to pay taxes on the excess over that amount. It seems to me that a man who wants to follow the course I have briefly outlined, and give away more than \$30,000—

Mr. GEORGE. Mr. President, if I may make it clear to the Senator, the donor may give \$3,000 to 10 persons in 1 year.

Mr. NORRIS. He could give no more after he gave away that amount without paying a tax. He would have reached his \$30,000 limit.

Mr. GEORGE. Oh, yes, he still would have his \$30,000 exclusion. The amount representing that exclusion might be given away to one child, for instance, in one year, or that child might receive as much as \$3,000 each year for 10 years without the donor paying a tax on it.

Mr. NORRIS. He would not be confined to gifts to his own family, although it might be very well for a person to make gifts to members of his family.

Mr. GEORGE. The \$30,000 exclusion may be given to any one person. Three thousand dollars may be given each year for 10 years to the same person.

Mr. NORRIS. I do not have a clear understanding of the situation. The Senator says a total of \$30,000 may be given, but that only \$3,000 may be given in any one year to any one person.

Mr. GEORGE. Three thousand dollars may be given in any one year, yes.

Mr. NORRIS. To any one person?

Mr. GEORGE. To any one person.

Mr. NORRIS. But if a man wanted to help a larger number of worthy poor people, and at the same time help the Government by buying the Government's bonds, he could not give away more than \$30,000 without being obliged to pay a tax. That would limit him very greatly.

Mr. GEORGE. He could give away \$3,000 to each of 10 persons under this bill without paying a tax.

Mr. NORRIS. Yes; I think he could. But if he wanted to engage in a large program which he might have in mind, he would not be able to do so without paying a tax on his total gifts. We certainly ought not to tax a man for making a charitable investment of that kind, one which I think everyone would like to see made as often as possible, which at the same time would result in helping the Government.

Mr. GEORGE. Of course, the gift tax is inserted in our income-tax law largely for the purpose of protecting the estate. Otherwise the estate could be dissipated before it ever became taxable.

Mr. NORRIS. Oh, yes.

Mr. GEORGE. The estate has to be preserved through the gift tax.

Mr. NORRIS. The incentive which moved Congress to pass the law was to prevent men of great wealth from avoiding the payment of estate taxes by giving away their property to their children or to other persons or institutions to which they expected to give all their property at their death.

Mr. GEORGE. The limitation, I think the Senator will find, is \$3,000 to any one person in any 1 year; \$30,000 is an exclusion.

Mr. NORRIS. Yes. More than \$30,000 cannot be given away without payment of the gift tax.

Mr. GEORGE. I may have misled the Senator, and I am trying to correct it. The \$30,000 is an exclusion. The donor can give \$3,000 each year for 10 years to one person.

Mr. NORRIS. Then, I misunderstood the Senator.

Mr. GEORGE. Yes; I am responsible for that. Three thousand dollars can be given away each year to the same person, but not more than \$3,000 to one person within the taxable year. I would not be in favor of permitting gifts to be made to one person of large amounts of money without a tax being applied. I think \$3,000 is sufficient.

Mr. GEORGE. Then, under the law I do not think there is any difficulty. The taxpayer can give away War bonds, and the gift will be determined on the present value of the bonds, not on their maturity value 10 years hence.

Mr. NORRIS. A \$100 bond can be bought at present for \$75. That bond becomes due in 10 years. The real investment upon which the tax would be levied in that case would be \$75, and not \$100.

Mr. GEORGE. I think the Senator is correct.

The PRESIDING OFFICER. The next amendment of the Finance Committee will be stated.

The next amendment was, in "Title V—Amendments to prior revenue acts and miscellaneous provisions", on page 490, line 4, after the word "additional", to strike out "credit" and insert "credits."

The amendment was agreed to.

The next amendment was, on the same page, after line 9, to strike out:

(2) The term "undistributed net income" means the adjusted net income minus the sum of (A) the dividends paid credit provided in section 27, (B) the credit provided in section 26 (c), relating to contracts restricting dividends, and (C) except in cases where section 26 (c) (1) is applicable, the deficit credit provided in section 26 (f).

The amendment was agreed to.

The next amendment was, on the same page, after line 16, to insert:

"(2) The term 'undistributed net income' means the adjusted net income minus the sum of (A) the dividend paid credit provided in section 27, (B) the credit provided in section 26 (c) relating to restrictions on payment of dividends, (C) except in cases where section 26 (c) (1) is applicable, the deficit credit provided in section 26 (f), and (D) the redemption credit provided in section 26 (g)."

(2) Section 26 (c) of the Revenue Act of 1936 (relating to credits of corporations) is amended by amending the heading to read as follows: "(c) Restrictions on Payment of Dividends.—"; and by amending paragraph (3) to read as follows:

"(3) Deficit corporations: In the case of a corporation having a deficit in accumulated earnings and profits as of the close of the preceding taxable year, the amount of such deficit, if the corporation is prohibited by a provision of a law or of an order of a public regulatory body from paying dividends during the existence of a deficit in accumulated earnings and profits, and if such provision was in effect prior to May 1, 1936.

"(4) Double credit not allowed: If more than one of the credits provided in the foregoing paragraphs (1), (2), and (3) apply, then the paragraph which allows the greatest credit shall be applied; and, if the credit allowable under each paragraph is the same, only one of such paragraphs shall be applied."

The amendment was agreed to.

The next amendment was, on page 491, line 19, before the word "section" to insert "(3)", and in line 21, after the word "new", to strike out "subsection" and insert "subsections."

The amendment was agreed to.

The next amendment was, on page 492, after line 12, to insert:

(g) Stock redemption credit: An amount equal to the portion of the recognized gain, realized within the taxable year and prior to March 3, 1936, from the sale or other disposition of a capital asset, which, pursuant to a contract, was distributed prior to such date to shareholders in redemption in whole or in part of preferred stock and which is not otherwise allowable as a credit under any other provision of this section or section 27.

The amendment was agreed to.

The next amendment was, on page 494, line 13, after the words "tax of", to strike out "4" and insert "8."

The amendment was agreed to.

The next amendment was, on page 494, line 22, after the words "United States" to strike out "and if the insurer is a nonresident alien individual, or a foreign partnership, or a foreign corporation, and if such policy or other instrument is not signed or countersigned by an officer or agent of the insurer in a State, Territory, or District of the United States within which such insurer is authorized to do business, a tax of 1 cent on each dollar or fractional part thereof, of the premium charged" and to insert in lieu thereof the following: "if the insurer is a nonresident alien individual, or a foreign partnership, or a foreign corporation, unless such policy or other instrument is signed or countersigned by an officer or agent of the insurer in a State, Territory, or District of the United States within which such insurer is authorized to do business, or unless the insurer is subject to tax under section 201, a tax of 1 cent on each dollar or fractional part thereof, of the premium charged."

The amendment was agreed to.

The next amendment was, in section 503 on page 496, line 19, in the headline, after the word "Bar", to strike out "To Suit Against United States" and to insert "In Other Suits."

The amendment was agreed to.

The next amendment was, on page 497, after line 10, to strike out:

Sec. 504. Change of name of Board of Tax Appeals.

(a) United States Tax Court: Effective on the day after the date of enactment of this Act, section 1100 (relating to status of Board of Tax Appeals) is amended by inserting at the end thereof the following

new sentence: "The Board shall be known as the United States Tax Court and the members thereof shall be known as the presiding judge and the judges of the United States Tax Court."

(b) Powers, tenure, etc., unchanged: The jurisdiction, powers, and duties of the United States Tax Court, its divisions and its officers and employees, and their appointment, including the designation of its officers, and the immunities, tenure of office, powers, duties, rights, and privileges of the presiding judge and judges of the United States Tax Court shall be the same as by existing law provided in the case of the Board of Tax Appeals. The Commissioner shall continue to be represented by the same counsel in the same manner before the Court as he has heretofore been represented in proceedings before the Board of Tax Appeals and the taxpayer shall continue to be represented in accordance with rules of practice prescribed by the Court. No qualified person shall be denied admission to practice before such Court because of his failure to be a member of any profession or calling.

(c) References: All references in any statute (except this section), or in any rule, regulation, or order, to the "Board of Tax Appeals" or to the "Board" when used in the sense of "Board of Tax Appeals", or to the "member", "members", or "chairman" thereof shall be considered to be made to the United States Tax Court, the judge, judges, and presiding judge thereof, respectively.

The amendment was agreed to.

The next amendment was, on page 499, after line 16, to strike out:

Sec. 506. Suspension of period for computation of interest in case of certain foreign taxpayers.

Notwithstanding any other provision of law, in determining the amount of interest with respect to income tax for taxable years beginning after December 31, 1939, in the case of nonresident alien individuals subject to the provisions of section 211 (a) or section 211 (c) and of foreign corporations subject to the provisions of section 231 (a) of the Internal Revenue Code, there shall be excluded the period beginning with the date of enactment of this act and ending with the fifteenth day of the sixth month following the month in which the present war is terminated as proclaimed by the President, if, during such period, payment of such tax was prevented due to restrictions imposed with respect to such individuals or corporations by any foreign country.

The amendment was agreed to.

The next amendment was, on page 500, after line 8, to strike out:

Sec. 507. Stamp tax in connection with transactions under orders of Securities and Exchange Commission.

Section 1808 is amended by changing the designation of subsection (g) to (h) and by inserting the following new subsection:

The amendment was agreed to.

The next amendment was, on page 500, after line 14, to insert:

Sec. 505. Miscellaneous amendments to stamp-tax provisions.

(a) Bonds, etc., issued by receiver: Section 1801 (relating to stamp tax on issuance of corporate obligations) is amended by inserting at the end thereof the following new sentence: "Obligations described in this section issued by any receiver, trustee in bankruptcy, assignee, or other person, having custody of property, or charge of the affairs, of any corporation, shall, for the purposes of this chapter, be deemed to be issued by the corporation."

(b) Transfers by operation of law:

(1) Section 1802 (relating to the stamp tax on sales and transfers of capital stock) is amended by inserting at the end thereof the following new subsection:

"(c) Transfers by operation of law: No delivery or transfer under subsection (b) not otherwise exempt shall be exempt because effected by operation of law. The tax under such subsection shall not be imposed upon any delivery or transfer—

"(1) From a decedent to his executor or administrator.

"(2) From a minor to his guardian, or from a guardian to his ward upon attaining majority.

"(3) From an incompetent to his committee or similar legal representative, or from a committee or similar legal representative to a former incompetent upon removal of disability.

"(4) From a bank, trust company, financial institution, insurance company, or other similar entity, or nominee, custodian, or trustee therefor, to a public officer or commission, or person designated by such officer or commission or by a court, in the taking over of its assets, in whole or part, under State or Federal law regulating or supervising such institutions, nor upon redelivery or retransfer by any such transferee or successor thereto.

"(5) From a bankrupt or person in receivership due to insolvency to the trustee in bankruptcy or receiver, from such receiver to such trustee, or from such trustee to such receiver, nor upon redelivery or retransfer by any such transferee or successor thereto.

"(6) From a transferee under paragraphs (1) to (5), inclusive, to his successor acting in the same capacity, or from one such successor to another.

"(7) From a foreign country or national thereof to the United States or any agency thereof, or to the government of any foreign country, directed pursuant to the authority vested in the President by section 5 (b) of the Trading With the Enemy Act (40 Stat. 415), as amended by the First War Powers Act (55 Stat. 838).

"(8) From trustees to surviving, substituted, succeeding, or additional trustees of the same trust.

"(9) Upon the death of a joint tenant or tenant by the entirety, to the survivor or survivors.

No exemption shall be granted under this subsection unless the delivery or transfer is accompanied by a certificate setting forth such facts as the Commissioner, with the approval of the Secretary, may by regulation prescribe."

(2) Section 3481 (relating to sales and transfers of bonds) is amended by inserting at the end thereof the following new subsection:

"(b) Transfers by operation of law: No delivery or transfer under subsection (a) not otherwise exempt shall be exempt because effected by operation of law. The tax under subsection (a) shall not be imposed upon any delivery or transfer—

"(1) From a decedent to his executor or administrator.

"(2) From a minor to his guardian, or from a guardian to his ward upon attaining majority.

"(3) From an incompetent to his committee or similar legal representative, or from a committee or similar legal representative to a former incompetent upon removal of disability.

"(4) From a bank, trust company, financial institution, insurance company, or other similar entity, or nominee, custodian, or trustee therefor, to a public officer or commission, or person designated by such officer or commission or by a court, in the taking over of its assets, in whole or part, under State or Federal law regulating or supervising

such institutions, nor upon redelivery or retransfer by any such transferee or successor thereto.

"(5) From a bankrupt or person in receivership due to insolvency to the trustee in bankruptcy or receiver, from such receiver to such trustee, or from such trustee to such receiver, nor upon redelivery or retransfer by any such transferee or successor thereto.

"(6) From a transferee under paragraphs (1) to (5), inclusive, to his successor acting in the same capacity, or from one such successor to another.

"(7) From a foreign country or national thereof to the United States or any agency thereof, or to the government of any foreign country, directed pursuant to the authority vested in the President by section 5 (b) of the Trading With the Enemy Act (40 Stat. 415), as amended by the First War Powers Act (55 Stat. 838).

"(8) From trustees to surviving, substituted, succeeding, or additional trustees of the same trust.

"(9) Upon the death of a joint tenant or tenant by the entirety, to the survivor or survivors.

No exemption shall be granted under this section unless the delivery or transfer is accompanied by a certificate setting forth such facts as the Commissioner, with the approval of the Secretary, may by regulation prescribe."

(c) Stamp tax exemption of cooperative banks, etc.: Section 1808 (c) (relating to exemption from stamp tax of stocks and bonds of building and loan associations, etc.) is amended by inserting after the words "building and loan associations" a comma and the words "savings and loan associations, cooperative banks, and homestead associations."

(d) Stamp tax exemption of railroad and corporate reorganizations in bankruptcy, etc.: Section 1808 (e) and (f) (relating to exemption of railroad and corporate reorganizations) are amended to read as follows:

"(e) Corporate reorganizations and reorganization of railroads: The provisions of sections 1801, 1802, and 1821 (b) of this chapter and the provisions of sections 3481 and 3482 of chapter 31 shall not apply to the issuance, transfer, or exchange of securities, or the making, delivery, or filing of conveyances to make effective any plan of reorganization or adjustment—

"(1) confirmed under the act entitled 'An act to establish a uniform system of bankruptcy throughout the United States,' approved July 1, 1898, as amended,

"(2) approved in an equity receivership proceeding in a court involving a railroad corporation, as defined in section 77 (m) of such act, or

"(3) approved in an equity receivership proceeding in a court involving a corporation, as defined in section 106 (3) of such act, if the issuance, transfer, or exchange of securities, or the making, delivery, or filing of instruments of transfer or conveyances, occurs within 5 years from the date of such confirmation or approval."

(e) Exemptions in connection with certain orders of the Securities and Exchange Commission and in the case of common trust funds: Section 1808 (g) (cross reference) is amended by striking out "(g)" and inserting in lieu thereof "(h)" and by inserting immediately before such subsection the following new subsections:

"(g) Orders of the Securities and Exchange Commission: The provisions of sections 1801, 1802, and 1821 (b) of this chapter and the provisions of sections 3481 and 3482 of chapter 31 shall not apply to the issuance, transfer, or exchange of securities, or making or delivery of conveyances, to make effective any order of the Securities and Exchange Commission as defined in section 373 (a) of chapter 1: *Provided*, That (1) the order of

the Securities and Exchange Commission in obedience to which such issuance, transfer, or exchange of securities, or conveyances are made recites that such issuance, transfer, or exchange, or conveyances are necessary or appropriate to effectuate the provisions of section 11 (b) of the Public Utility Holding Company Act of 1935, 49 Stat. 820 (U. S. C., title 15, sec. 79k (b)), (2) such order specifies and itemizes the securities and other property which are ordered to be issued, transferred, exchanged, or conveyed, and (3) such issuance, transfer, or exchange, or conveyance is made in obedience to such order."

"(g) Common trust funds: The provisions of section 1802 (a) shall not apply to the issue of shares or certificates of a common trust fund, as defined in section 169."

(f) Exemption of United States, etc., from stamp tax: Section 1809 (a) (relating to persons liable for payment of stamp tax) is amended by inserting at the end thereof the following new sentence: "The United States or any agency or instrumentality thereof shall not be liable for the tax with respect to an instrument to which it is a party, and affixing of stamps thereby shall not be deemed payment for the tax, which may be collected by assessment from any other party liable therefor."

(g) Transfer of bonds on reorganization taxable: Section 3481 (a) (relating to imposition of transfer tax) is amended by striking out: "Provided further, That the tax shall not be imposed on deliveries or transfers of bonds in connection with a reorganization (as defined in section 112 of the Revenue Act of 1932, 47 Stat. 196) if any of the gain or loss from the exchange or distribution involved in the delivery or transfer is not recognized under the income tax law applicable to the year in which the delivery or transfer is made."

(h) Transfers, etc., with respect to which amendments applicable—

(1) The amendment of section 1801 by subsection (a) of this section shall be applicable to obligations issued after the date of the enactment of this act.

(2) Section 1802 (c) and section 3481 (b) added by subsection (b) of this section shall be applicable to deliveries and transfers on or after the thirtieth day after the date of the enactment of this act.

(3) The amendment of section 1808 (c) made by subsection (c) of this section shall be applicable to stocks and bonds issued or transferred after the date of the enactment of this act.

(4) The amendment of section 1808 (e) and (f) made by subsection (d) of this section shall be applicable to the issuance, transfer, or exchange of securities, or the making, delivery, or filing of conveyances, after the date of the enactment of this act. Section 267 of the National Bankruptcy Act (U. S. C. Title 11, section 667) and any other provision of Federal law insofar as it confers exemption from stamp tax with respect to the issuance, transfer, or exchange of securities, or the making, delivery, or filing of conveyances, after 5 years from the date of confirmation or approval of the plan of reorganization or adjustment, shall be inapplicable to the issuance, transfer, or exchange of securities, or the making, delivery, or filing of conveyances, after the date of the enactment of this act.

(5) (A) Section 1808 (f) added by subsection (e) of this section shall be applicable to the issuance, transfer, or exchange of securities, or the making or delivery of conveyances, after the date of the enactment of this act.

(B) Section 1808 (g) as added by subsection (e) of this section shall be applicable to shares and certificates issued after the date of the enactment of this act.

(6) The amendment of section 1809 (a) made by subsection (f) of this section shall be applicable to instruments to which the

United States or any agency or instrumentality thereof becomes a party after the date of the enactment of this act.

(7) The amendment of section 3481 (a) made by subsection (g) of this section shall be applicable to deliveries or transfers after the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on page 510, after line 4, to strike out:

"(a) Individuals: The period of time after December 6, 1941, during which an individual is outside the Americas (if outside for more than 90 days continuously), or is within any locality in the Americas which the Commissioner determines is besieged or occupied by any foreign government with which the United States is at war, and the next 90 days thereafter, shall be disregarded in determining, under the internal revenue laws, in respect of any tax (including any interest, penalty, additional amount, or addition to the tax):

"(1) the amount of any interest required to be paid, whether in respect of taxes, credits, or refunds;

"(2) the application of penalties, additional amounts, and additions to tax;

"(3) the amount of any credit or refund; and

"(4) whether any of the following acts was performed within the time prescribed therefor:

"(A) filing any income, estate, or gift tax return;

"(B) payment of any income, estate, or gift tax or any installment thereof or of any other liability to the United States in respect of any such tax;

"(C) allowance of a credit or refund of any tax;

"(D) filing a petition with the Board of Tax Appeals for redetermination of a deficiency, or for review of a decision rendered by the Board;

"(E) filing a claim for credit or refund of any tax;

"(F) bringing a suit upon any such claim for credit or refund;

"(G) assessment of any tax;

"(H) giving or making any notice or demand, for the payment of any tax or with respect to any liability to the United States in respect of any tax;

"(I) collection, by the Commissioner or the collector, by distraint or otherwise of the amount of any liability in respect of any tax;

"(J) bringing suit (civil or criminal), by the United States or any officer on its behalf, in respect of any liability in respect of any tax; and

"(K) any other act required or permitted under the internal revenue laws specified in regulations prescribed under this section by the Commissioner with the approval of the Secretary.

"(b) Other taxpayers and other circumstances: In cases to which subsection (a) does not apply, the Commissioner may under such regulations as he prescribes, with the approval of the Secretary, apply such provisions to persons in such circumstances that,

"(1) By reason of any individual being outside the Americas or by reason of any locality (within or without the Americas) being besieged or occupied, as determined by the Commissioner, by any foreign government with which the United States is at war, or

"(2) By reason of an individual in the military or naval forces of the United States being outside the States of the Union and the District of Columbia,

it is impossible or impracticable to perform any act specified under paragraph (4) of such subsection.

The amendment was agreed to.

The next amendment was, on page 512, after line 15, to insert:

"(a) Individuals: The period of time after December 6, 1941, during which an individual is continuously outside the Americas (if such period is longer than 90 days), and the next 90 days thereafter, shall be disregarded in determining, under the internal revenue laws, in respect of any tax liability (including any interest, penalty, additional amount, or addition to the tax) of such individual—

"(1) Whether any of the following acts was performed within the time prescribed therefor:

"(A) filing any return of income, estate, or gift tax (except income tax withheld at source and income tax imposed by chapter 9 or any law superseded thereby);

"(B) payment of any income, estate, or gift tax (except income tax withheld at source and income tax imposed by chapter 9 or any law superseded thereby) or any installment thereof or of any other liability to the United States in respect thereof;

"(C) filing a petition with the Board of Tax Appeals for redetermination of a deficiency, or for review of a decision rendered by the Board;

"(D) allowance of a credit or refund of any tax;

"(E) filing a claim for credit or refund of any tax;

"(F) bringing a suit upon any such claim for credit or refund;

"(G) assessment of any tax;

"(H) giving or making any notice or demand, for the payment of any tax, or with respect to any liability to the United States in respect of any tax;

"(I) collection, by the Commissioner or the collector, by distraint or otherwise, of the amount of any liability in respect of any tax;

"(J) bringing suit by the United States, or any officer on its behalf, in respect of any liability in respect of any tax; and

"(K) any other act required or permitted under the internal revenue laws specified in regulations prescribed under this section by the Commissioner with the approval of the Secretary;

"(2) The amount of any credit or refund (including interest).

"(b) Other taxpayers and other circumstances: In any case to which subsection (a) does not apply in which it is determined by the Commissioner, under regulations prescribed by him with the approval of the Secretary, that—

"(1) By reason of an individual being outside the Americas, or

"(2) By reason of any locality (within or without the Americas) being an area of enemy action or being an area under the control of the enemy, as determined by the Commissioner, or

"(3) By reason of an individual in the military or naval forces of the United States being outside the States of the Union and the District of Columbia,

it is impossible or impracticable to perform any one or more of the acts specified in subsection (a), then in determining, under the internal-revenue laws whether such act was performed within the time prescribed therefor, in respect of any tax liability (including any interest, penalty, additional amount, or addition to tax) affected by the failure to perform such act within such time, and in determining the amount of any credit or refund (including interest) affected by such failure, there shall be disregarded such period after December 6, 1941, as may be prescribed by such regulations.

The amendment was agreed to.

The next amendment was, on page 515, line 11, after the words "shall not", to strike out "include or."

The amendment was agreed to.

The next amendment was, on the same page, line 17, after the word "individual", to strike out "entitled to the benefits of subsection (a) or (b)" and to insert "with respect to whom a period of time is disregarded under this section."

The amendment was agreed to.

The next amendment was, on page 517, line 4, after "(2)", to strike out "Whereabouts of individual unknown" and to insert "Action taken before ascertainment of right to benefits."

The amendment was agreed to.

The next amendment was, on the same page, line 19, after "subsection (a)", to strike out "(4)" and to insert "(1)."

The amendment was agreed to.

The next amendment was, on page 518, after line 1, to strike out:

"(2) When individual ceases to be outside Americas or within a locality besieged or occupied: In the case of any act specified in subsection (a) (4) (G), (H), (I), or (J), any individual outside the Americas or within a locality in the Americas besieged or occupied by a foreign government with which the United States is at war shall not, if he returns to the Americas or leaves such locality after the date of enactment of this section, be deemed to have returned to the Americas or ceased to be within such locality before the date upon which the Commissioner receives from such individual a notice thereof in such form as the Commissioner with the approval of the Secretary, shall by regulations prescribe. A similar rule shall be applied in the case of a member of the military or naval forces of the United States who is entitled to the benefits of this section by reason of being outside the States of the Union and the District of Columbia."

And to insert in lieu thereof the following:

"(2) When individual ceases to be outside Americas or within an area of enemy action: For the purpose of determining whether any act specified in subsection (a) (1) (G), (H), (I), or (J) was performed within the time prescribed therefor, if any period of time is disregarded under this section by reason of any individual being outside the Americas or within an area of enemy action or control, such individual shall not, if he returns to the Americas or leaves such area after the date of enactment of this section, be deemed to have returned to the Americas or ceased to be within such area before the date upon which the Commissioner receives from such individual a notice thereof in such form as the Commissioner, with the approval of the Secretary, shall by regulations prescribe. A similar rule shall be applied in the case of a member of the military or naval forces of the United States with respect to whom a period of time is disregarded under this section by reason of being outside the States of the Union and the District of Columbia."

The amendment was agreed to.

The next amendment was, on page 519, line 16, after the word "Qualifies" and the period, to strike out "In the case of any act specified in subsection (a) (4) (G), (H), (I), or (J)" and to insert in lieu thereof "For the purpose of determining whether any act specified in subsection (a) (1) (G), (H), (I), or (J) was performed within the time prescribed therefor."

The amendment was agreed to.

The next amendment was, on page 520, after line 16, to strike out:

The amendments made by this section shall not be construed to shorten any period

fixed under the provisions of section 13 or 14 of the act approved March 7, 1942 (Public Law 490—77th Cong.), or section 513 of the Soldiers' and Sailors' Civil Relief Act of 1940 (54 Stat. 1190, U. S. C., title 50, Appendix, sec. 573) within which any act may be done, except that any action or proceeding authorized under section 3804 (d) (1) of the Internal Revenue Code, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted without regard to the period so fixed.

The amendment was agreed to.

The next amendment was, on page 521, after line 2, to insert:

(1) Public law 490, Seventy-seventh Congress: The amendments made by this section shall not be construed to shorten any period fixed under the provisions of section 13 or 14 of the act approved March 7, 1942 (Public Law 490, 77th Cong.), within which any act may be done, except that any action or proceeding authorized under section 3804 (d) (1) of the Internal Revenue Code, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted without regard to the period so fixed.

(2) Soldiers' and Sailors' Civil Relief Act of 1940:

(A) The amendments made by this section shall not be construed to shorten any period fixed under the provisions of section 513 of the Soldiers' and Sailors' Civil Relief Act of 1940 within which any act may be done, except that any action or proceeding authorized under section 3804 (d) (1) of the Internal Revenue Code, as well as any other action or proceeding authorized by law in connection therewith, may be taken, begun, or prosecuted without regard to the period so fixed.

(B) Article II of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, is amended by adding at the end thereof the following new section:

"Sec. 207: Section 205 of this act shall not apply with respect to any period of limitation prescribed by or under the internal revenue laws of the United States."

(C) The Soldiers' and Sailors' Civil Relief Act of 1940, as amended, is amended by adding at the end thereof the following new section:

The amendment was agreed to.

The next amendment was, on page 522, after line 10, to insert:

"Sec. 701. Notwithstanding any other provision of this act, any application to a court for relief under this act in respect of any tax (including any interest, penalty, additional amount, or addition to the tax) imposed by the United States may be made only to a court of competent jurisdiction of the United States."

Mr. OVERTON. Mr. President, a parliamentary inquiry.

The PRESIDING OFFICER. The Senator will state it.

Mr. OVERTON. Does the amendment just now considered include the subject matter on page 534, beginning in line 6 and extending to line 21 on page 540?

The PRESIDING OFFICER. The amendment just acted upon extends from line 3 on page 521 to and including line 10 on page 522.

Mr. OVERTON. Does it extend to the subject matter from page 534 to page 540?

The PRESIDING OFFICER. No. The subject matter dealt with on those pages has not as yet been reached.

Mr. GEORGE. Mr. President, I wish to say that the Senator from Missouri

[Mr. CLARK] gave notice in committee, I think, that he desired to offer an amendment to section 701, on page 522.

Mr. VANDENBERG. That is the section relating to soldiers' and sailors' civil relief.

Mr. CLARK of Missouri. I do desire to offer an amendment, Mr. President. I do not have the amendment prepared as yet.

Mr. GEORGE. I was going to suggest that the amendment be passed over.

Mr. CLARK of Missouri. I appreciate the suggestion, and shall prepare the amendment and offer it later.

Mr. GEORGE. I ask that the amendment beginning in line 11 on page 522, and ending in line 16 of the same page, be passed over.

The PRESIDING OFFICER. Without objection, the amendment on page 522, from line 11 to line 16, will be passed over.

The next amendment of the Finance Committee will be stated.

The next amendment was, on page 522, after line 16, to insert the following:

(c) Retroactive effect: The provisions of sections 3804 and 3805, as added by subsection (a) of this section, shall be effective as if they were enacted on December 7, 1941; except that the phrase "date of enactment of this section," when used in subsections (d) (3) and (e) (2) and (3) of section 3804, means the date of enactment of this act. Any amount of interest, penalty, additional amount, or addition to the tax otherwise allowable as a refund or credit under the internal-revenue laws (including sections 3805 and 3804, except subsection (d) (2)) may be refunded or credited without regard to section 3804 (d) (2). No interest shall be allowed or paid by the United States upon any amount refunded or credited by reason of this subsection.

The amendment was agreed to.

The next amendment was, on page 523, after line 4, to insert:

Sec. 507. Mitigation of effect of disallowance of reimbursement on contracts with the United States.

Chapter 38 is amended by inserting at the end thereof the following new section:

"Sec. 3805. Mitigation of effect of disallowance of reimbursement on contracts with the United States.

"(a) Reduction of reimbursement for prior taxable year: In the case of a cost-plus-a-fixed-fee contract between the United States or any agency thereof and the taxpayer, if an item for which the taxpayer has been reimbursed is disallowed as an item of cost chargeable to such contract and, in a taxable year beginning after December 31, 1941, the taxpayer is required to repay the United States or any agency thereof the amount disallowed or the amount disallowed is applied as an offset against other amounts due the taxpayer, the amount of the reimbursement of the taxpayer under the contract for the taxable year in which the reimbursement for such item was received or was accrued (hereinafter referred to as 'prior taxable year') shall be reduced by the amount disallowed. The amount of the repayment or offset shall not constitute a deduction for the year in which paid or incurred. The foregoing provisions of this subsection shall not apply in respect of any contract if the taxpayer shows to the satisfaction of the Commissioner that a different method of accounting for the amount of the repayment or disallowance clearly reflects income, and in such a case the repayment or disallowance shall be accounted for with respect to the taxable year provided

for under such method, which for the purposes of subsections (b), (c), and (d) shall be considered a prior taxable year.

"(b) Credit against repayment on account of disallowance:

"(1) General rule: There shall be credited against the amount disallowed the amount by which the tax for the prior taxable year under chapter 1, chapter 2A, chapter 2D, and chapter 2E is decreased by reason of the application of subsection (a).

"(2) Credit for barred year: If at the time of the repayment or offset described in subsection (a), refund or credit of tax under chapter 1, chapter 2A, chapter 2D, or chapter 2E, for the prior taxable year, is prevented (except for the provisions of section 3801) by any provision of the internal-revenue laws other than section 3761, or by rule of law, the amount by which the tax for such year under such chapters is decreased by the application of subsection (a) shall be computed under this paragraph. There shall first be ascertained the tax previously determined for the prior taxable year. The amount of the tax previously determined shall be (A) the tax shown by the taxpayer upon his return for such taxable year, increased by the amounts previously assessed (or collected without assessment) as deficiencies, and decreased by the amounts previously abated, credited, refunded, or otherwise repaid in respect of such tax; or (B) if no amount was shown as the tax by such taxpayer upon his return, or if no return was made by such taxpayer, then the amounts previously assessed (or collected without assessment) as deficiencies, but such amounts previously assessed, or collected without assessment, shall be decreased by the amounts previously abated, credited, refunded, or otherwise repaid in respect of such tax. There shall then be ascertained the decrease in tax previously determined which results solely from the application of subsection (a) to the prior taxable year. The amount so ascertained, together with any amounts collected as additions to the tax or interest, as a result of subsection (a) not having been applied to the prior taxable year shall be the amount by which such tax is decreased.

"(3) Interest: In determining the amount of the credit under this subsection no interest shall be allowed with respect to the amount ascertained under paragraph (1) or paragraph (2); except that if interest is charged by the United States or the agency thereof on account of the disallowance for any period before the date of the repayment or offset, the credit shall be increased by an amount equal to interest on the amount ascertained under either such paragraph at the same rate and for the period (prior to the date of the repayment or offset) as interest is so charged.

"(c) Credit in lieu of other credit or refund: If a credit is allowed under subsection (b) with respect to a prior taxable year no other credit or refund under the internal-revenue laws founded on the application of subsection (a) shall be made on account of the amount allowed with respect to such taxable year. If the amount allowable as a credit under subsection (b) exceeds the amount allowed under such subsection, the excess shall, for the purposes of the internal-revenue laws relating to credit or refund of tax, be treated as an overpayment for the prior taxable year which was made at the time the repayment or offset was made."

The amendment was agreed to.

The next amendment was, on page 526, after line 22, to insert:

Sec. 503. Amendment to the Public Salary Tax Act of 1939.

(a) Exemption of certain compensation for period before 1939: Section 203 of the Public Salary Tax Act of 1939 is amended by designating the present language contained therein as subsection (a) and by add-

ing at the end thereof a new subsection to read as follows:

"(b) Any amount of income tax (including interest, additions to tax, and additional amounts) for taxable years beginning after December 31, 1933, to the extent attributable to compensation for personal service rendered in a taxable year beginning prior to January 1, 1939 (other than compensation received as a pension, retirement pay, or similar allowance), as an officer or employee of a State, or any political subdivision thereof, or any agency or instrumentality of any one or more of the foregoing—

"(1) shall not be assessed; and

"(2) if assessed, the assessment shall be abated and any amount collected in pursuance of such assessment shall be credited or refunded in the same manner as in the case of an income tax erroneously collected, if the Commissioner of Internal Revenue, under regulations prescribed by him with the approval of the Secretary of the Treasury, finds that assessment of such tax, or disallowance of a claim for credit or refund, except for title I of this act, would result in the application of the doctrines in the cases of *Helvering v. Thierell* (303 U. S. 218), *Helvering v. Gerhardt* (304 U. S. 405), and *Graves et al. v. New York ex rel. O'Keefe* (306 U. S. 466), extending the classes of officers and employees subject to Federal taxation."

(b) Effective date of amendment: The amendment made by this section shall be effective as of the date of enactment of the Public Salary Tax Act of 1939.

The amendment was agreed to.

Mr. GEORGE. Mr. President, the amendment on page 528, beginning in line 6, dealing with taxation of obligations of the United States and its instrumentalities, should go over, in connection with the taxation of income on municipal and State bonds. The next amendment should also go over. Sections 509 and 510 should go over.

The PRESIDING OFFICER. The amendment on page 528, beginning in line 6, and the amendment on page 531, beginning in line 13, will be passed over.

The next amendment of the Finance Committee will be stated.

The next amendment was, on page 532, after line 13, to insert:

Sec. 511. Joint Committee on Compulsory Saving.

(a) There is hereby established a committee to study methods of financing the war, to be composed of (1) five members of the Committee on Finance of the Senate, to be appointed by the President of the Senate; (2) five members of the Committee on Ways and Means of the House of Representatives, to be appointed by the Speaker of the House of Representatives; and (3) the Secretary of the Treasury. A vacancy in the committee shall not affect the power of the remaining members to execute the functions of the committee, and shall be filled in the same manner as the original selection. A majority of the committee shall constitute a quorum, and the powers conferred upon them by this section may be exercised by a majority vote.

(b) It shall be the duty of the committee to make a full and complete study and investigation of all plans for compulsory savings, and other plans, by which money may be raised to assist in the conduct of the war and the avoidance of inflation and plans for payment currently of taxes. The committee shall report to the President and to the Congress the results of its study, together with its recommendations, on or before December 1, 1942.

(c) The committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings, to sit and act at such times and places, to employ such experts and such clerical and other assistants, to require by subpoena or otherwise the attendance of such witnesses and the production of such books, papers, and documents, to administer such oaths, to take such testimony, and to make such expenditures, as it deems advisable. The provisions of sections 102 to 104, inclusive, of the Revised Statutes shall apply in case of any failure of any witness to comply with any subpoena, or to testify when summoned under the authority of this section.

(d) The committee is authorized to utilize the services, information, facilities, and personnel of the departments and agencies of the Government.

(e) There is hereby authorized to be appropriated the sum of \$10,000, or so much thereof as may be necessary, to carry out the provisions of this section.

(f) All authority conferred by this section shall terminate upon the submission of the committee's final report.

The amendment was agreed to.

Mr. OVERTON. Mr. President, the next amendment begins in line 6, on page 534. I ask that all the provisions in reference to the abolition of the Board of Review and transfer of jurisdiction to Board of Tax Appeals may be passed over in order that I may submit an amendment. I think the amendment extends to line 18, on page 540.

The PRESIDING OFFICER. Without objection, the amendment beginning on page 534, line 6, will be passed over.

The next amendment will be stated.

The next amendment was, on page 540, after line 18, to insert:

Sec. 513. Definition of military or naval forces of the United States.

Section 3797 (a) (15) is amended to read as follows:

"(15) Military or naval forces of the United States: The term 'military or naval forces of the United States' includes the Marine Corps, the Coast Guard, the Army Nurse Corps, female, the Women's Army Auxiliary Corps, the Navy Nurse Corps, female, and the Women's Reserve branch of the Naval Reserve."

The amendment was agreed to.

The next amendment was, on page 541, after line 2, to insert:

Sec. 514. Joint Committee on Internal Revenue Taxation—power to obtain data.

Chapter 48 (relating to joint committee) is amended by adding at the end thereof the following new section:

"Sec. 5012. Additional powers to obtain data.

"(a) The Joint Committee on Internal Revenue Taxation or the chief of staff of such joint committee, upon approval of the chairman or vice chairman, is authorized to secure directly from the Bureau of Internal Revenue (including the assistant general counsel for the Bureau of Internal Revenue), or directly from any executive department, board, bureau, agency, independent establishment, or instrumentality of the Government, information, suggestions, data, estimates, and statistics, for the purpose of making investigations, reports, and studies relating to internal revenue taxation.

"(b) The Bureau of Internal Revenue (including the assistant general counsel for the Bureau of Internal Revenue), executive departments, boards, bureaus, agencies, independent establishments, and instrumentalities are authorized and directed to furnish such information, suggestions, data, estimates, and statistics directly to the Joint Committee on Internal Revenue Taxation

or to the chief of staff of such joint committee, upon request made pursuant to this section."

Mr. BARKLEY. Mr. President, I ask that the matter included in section 514, on page 541, be passed over for future consideration.

The PRESIDING OFFICER. Without objection, section 514 will be passed over.

The clerk will state the next amendment of the committee.

The next amendment was, on page 543, after line 2, to strike out:

(2) Returns: Any person required by this subsection to pay any floor stocks tax shall, on or before the first day of the third month following the effective date of Title VI of the Revenue Act of 1942, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax.

And insert:

(2) Returns: Under such regulations as the Commissioner with the approval of the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of Title VI of the Revenue Act of 1942 make a return and shall, on or before the first day of the third month following such effective date, pay such tax.

The amendment was agreed to.

The next amendment was, on page 544, after line 7, to insert:

(e) Exemption of imported alcohol for industrial purposes:

(1) Amendment to internal revenue code: Part II of subchapter C of chapter 26 (relating to industrial alcohol) is amended by inserting at the end thereof the following new section:

"Sec. 3125. Importation of alcohol for industrial purposes.

"(a) Importation without payment of internal-revenue tax: Under regulations to be prescribed by the Commissioner, with the approval of the Secretary, and subject from the time of its withdrawal from customs custody to all the applicable provisions of this part, alcohol of 160 proof, or greater, may be imported into the United States and be withdrawn, in bond, from customs custody, without payment of the internal-revenue tax imposed by section 2800 upon the act of importing such alcohol, for transfer to industrial alcohol plants, alcohol bonded warehouses, and denaturing plants for redistillation or denaturation and withdrawal, or withdrawal without redistillation or denaturation, tax free or tax paid, as the case may be, for all the purposes authorized by this part. If such alcohol is withdrawn from the said industrial alcohol plants, alcohol bonded warehouses, or denaturing plants for beverage purposes, there shall be paid upon such withdrawal an additional tax equal to the duty which would have been paid had such spirits been imported for beverage purposes, less the duty already paid thereon.

"(b) Withdrawal tax: For use of United States: Alcohol may be withdrawn from customs custody by the United States or any governmental agency thereof for its own use, free of internal-revenue tax, under such regulations as may be prescribed."

(2) Effective date of subsection: Notwithstanding section 601, this subsection shall take effect on the day following the date of enactment of this act.

(f) Drawback if distilled spirits used for certain purposes: Section 3250 (relating to taxation of distilled spirits) is amended by inserting at the end thereof the following new subsection:

"(1) Manufacturers or producers of designated nonbeverage products:

"(1) In general: Any person using fully tax-paid distilled spirits in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which are unfit for use for beverage purposes and are sold or otherwise transferred for use for other than beverage purposes, shall, upon payment of a special tax of \$100 per annum, be eligible for drawback as hereinafter provided for.

"(2) Requirements: Such person shall register annually with the Commissioner; keep such books and records as may be necessary to establish the fact that distilled spirits purchased by him and fully tax-paid were used in the manufacture or production of medicines, medicinal preparations, food products, flavors, or flavoring extracts which were unfit for use for beverage purposes, and were sold or otherwise transferred for use for other than beverage purposes; and shall be subject to such rules and regulations in relation thereto as the Commissioner, with the approval of the Secretary, shall prescribe to secure the Treasury of the United States against frauds.

"(3) Investigative powers of Commissioner: The Commissioner, for the purpose of ascertaining the correctness of any claim filed under this subsection is authorized, by any officer or employee of the Bureau of Internal Revenue, including the field service, designated by him for that purpose, to examine any books, papers, records, or memoranda bearing upon the matters required to be alleged in the claim, and may require the attendance of the person filing the claim or of any officer or employee of such person, or the attendance of any other person having knowledge in the premises, and may take his testimony with reference to any matter covered by the claim, with power to administer oaths to such person or persons.

"(4) Drawback: A drawback at the rate of \$3.75 on each proof gallon shall be allowed on distilled spirits tax-paid and used as provided in this subsection and be due and payable quarterly upon filing of a proper claim with the Commissioner. No claim under this subsection shall be allowed unless filed with the Commissioner within the 3 months next succeeding the quarter for which the drawback is claimed.

Sec. 603. Fermented malt liquors.

The amendment was agreed to.

The next amendment was, on page 548, line 2, after the word "gallons", to strike out:

The tax imposed by this subsection shall not apply to the retail stocks of fermented malt liquors held by a person on premises as to which such person has incurred occupational tax as a retail dealer in liquors or a retail dealer in malt liquors for the period beginning on July 1, 1942, and as to which no other occupational tax with respect to dealing in distilled spirits, wines, or malt liquors, has been incurred by such person for a period beginning on such date.

"(2) Returns: Every person required by paragraph (1) to pay any floor stocks tax shall, on or before the first day of the third month following the effective date of title VI of the Revenue Act of 1942, under such regulations as the Commissioner with the approval of the Secretary shall prescribe, make a return and pay such tax.

And insert:

"(2) Returns: Under such regulations as the Commissioner with the approval of the Secretary shall prescribe, every person required by paragraph (1) to pay any floor stocks tax shall, on or before the end of the 30th day following the effective date of title VI of the Revenue Act of 1942 make a return

and shall, on or before the 1st day of the third month following such effective date, pay such tax.

The amendment was agreed to.

The next amendment was, on page 549, line 19, after the word "on", to strike out "sparkling" and insert "artificially carbonated"; and in line 21, after the word "out" to strike out "7 cents" and inserting in lieu thereof "10 cents"; and by striking out."

Mr. LA FOLLETTE. Mr. President, I ask that the amendment in lines 19 to 23, on page 549, be passed over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

The next amendment was, on page 550, at the beginning of line 9, to strike out "(over the defense tax rates)."

The amendment was agreed to.

The next amendment was, on page 550, after line 10, to strike out:

"(b) Returns: Every person required by subsection (a) to pay any floor stocks tax shall, on or before the first day of the third month following the effective date of Title VI of the Revenue Act of 1942, under such regulations as the Commissioner, with the approval of the Secretary, shall prescribe, make a return and pay such tax.

And insert:

"(b) Returns: Under such regulations as the Commissioner with the approval of the Secretary shall prescribe, every person required by subsection (a) to pay any floor stocks tax shall, on or before the end of the thirtieth day following the effective date of Title VI of the Revenue Act of 1942 make a return and shall, on or before the first day of the third month following such effective date, pay such tax.

The amendment was agreed to.

The next amendment was, on page 551, after line 9, to strike out:

Sec. 605. Tobacco, cigars, cigarettes, and cigarette papers and tubes.

(a) Rate on smoking tobacco: Section 2000 (a) (2) is amended by striking out "18 cents per pound" and inserting in lieu thereof "18 cents per pound on chewing tobacco, and 24 cents per pound on smoking tobacco."

The amendment was agreed to.

The next amendment was, on page 551, after line 22, to strike out:

"(1) Cigars: On cigars of all descriptions made of tobacco, or any substitute therefor, and weighing not more than 3 pounds per thousand, 75 cents per thousand;

"On cigars made of tobacco, or any substitute therefor, and weighing more than 3 pounds per thousand, if manufactured or imported to retail at not more than 2½ cents each, \$2.50 per thousand;

"If manufactured or imported to retail at more than 2½ cents each and not more than 4 cents each, \$3.50 per thousand;

"If manufactured or imported to retail at more than 4 cents each and not more than 6 cents each, \$5.00 per thousand;

"If manufactured or imported to retail at more than 6 cents each and not more than 8 cents each, \$7.00 per thousand;

"If manufactured or imported to retail at more than 8 cents each and not more than 11 cents each, \$10.00 per thousand;

"If manufactured or imported to retail at more than 11 cents each and not more than 15 cents each, \$13.50 per thousand;

"If manufactured or imported to retail at more than 15 cents each and not more than 20 cents each, \$18.00 per thousand;

"If manufactured or imported to retail at more than 20 cents each and not more than 30 cents each, \$25.00 per thousand;

"If manufactured or imported to retail at more than 30 cents each, \$35 per thousand;

And insert:

"(1) Cigars: On cigars of all descriptions made of tobacco, or any substitute therefor, and weighing not more than 3 pounds per thousand, 75 cents per thousand;

"On cigars made of tobacco, or any substitute therefor, and weighing more than 3 pounds per thousand, if manufactured or imported to retail at not more than 2½ cents each, \$2.00 per thousand;

"If manufactured or imported to retail at more than 2½ cents each and not more than 4 cents each, \$3.00 per thousand;

"If manufactured or imported to retail at more than 4 cents each and not more than 6 cents each, \$4.00 per thousand;

"If manufactured or imported to retail at more than 6 cents each and not more than 8 cents each, \$7.00 per thousand;

"If manufactured or imported to retail at more than 8 cents each and not more than 15 cents each, \$10.00 per thousand;

"If manufactured or imported to retail at more than 15 cents each and not more than 20 cents each, \$15.00 per thousand;

"If manufactured or imported to retail at more than 20 cents each, \$20.00 per thousand.

Mr. DANAHER. Mr. President, I respectfully ask that this portion of section 605 be passed over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

Mr. GEORGE. Mr. President, I do not believe that the portion of the section on page 554, after line 11, is involved in the Senator's request. Let me ask the Senator from Connecticut whether his request includes the amendment on page 554, after line 11.

Mr. DANAHER. According to the copy which I hold in my hand, what I am really interested in is on page 551, after line 22, and on pages 552 and 553, extending through line 2, on page 554, with reference to cigars.

Mr. GEORGE. I thought so.

Mr. DANAHER. In my copy, that is comprehended within section 605.

Mr. GEORGE. The Senator is correct.

Mr. DANAHER. All I am interested in is the part which deals with cigars. The Senator may recall that I mentioned the subject in committee.

Mr. GEORGE. I recall. As I understand, the Senator has no objection to proceeding with the amendment on page 554 with regard to rates on cigarettes, cigarette papers, and tubes?

Mr. DANAHER. No; I have no objection to action on that amendment. I am interested only in discussing briefly, at some time the rates on cigars, which have already been made the basis of much discussion in the committee, as every member of the committee knows.

The PRESIDING OFFICER. Will the Senator state again that part of section 605 which he wishes to pass over?

Mr. DANAHER. Beginning in line 23, on page 551, and extending through line 7, on page 554.

The PRESIDING OFFICER. Without objection, that part of the section will be passed over.

The clerk will state the next amendment of the committee.

The next amendment was, on page 554, after line 11, to strike out:

(d) Rates on cigarette papers and tubes: Section 2000 (d) is amended to read as follows:

"(d) Cigarette paper: There shall be levied collected, and paid upon cigarette paper made up into packages, books, sets or tubes, made up in or imported into the United States and sold or delivered by the manufacturer or importer to any person (other than to a manufacturer of cigarettes for use by him in the manufacture of cigarettes intended for sale or consumption), the following taxes:

"On each package, book, or set containing not more than 25 papers or tubes, one-half cent;

"Containing more than 25 papers or tubes, one-half cent for each 25 papers or tubes or fractional part thereof."

The amendment was agreed to.

The next amendment was, on page 555, line 2, after the word "upon", to strike out "smoking tobacco"; and in line 21, after the word "having", to strike out "tobacco."

The amendment was agreed to.

The next amendment was, on page 556, after line 15, to insert:

(e) Exportation of cigarette papers and tubes free of internal revenue tax: Section 2197 (b) (relating to tax-free exportation of tobacco) is amended by striking out "or cigarettes" and inserting in lieu thereof "cigarettes, or cigarette papers or tubes."

The amendment was agreed to.

The next amendment was, on page 557, line 15, after the word "paid", to insert "except that in the case of each international telegraph, cable, or radio dispatch or message the rate shall be 10 percent"; and in line 19, after the word "tax", to strike out "shall be based shall be the sum of all such charges", and insert "at each of the rates in this subparagraph shall be based shall be the sum of all such charges at that rate."

The amendment was agreed to.

The next amendment was, on page 560, after line 9, to strike out:

(4) Photographic apparatus: Cameras (except cameras weighing more than 4 pounds exclusive of lens and accessories) and lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in developing, printing, or enlarging photographs or motion pictures, 25 percent; unexposed photographic films (including motion-picture films but not including X-ray film), photographic plates and sensitized paper, 15 percent.

And insert:

(4) Photographic apparatus: Cameras and lenses, photographic apparatus and equipment, and any apparatus or equipment designed especially for use in the taking of photographs or motion pictures or in developing, printing, or enlarging photographs or motion pictures, 10 percent; unexposed photographic films (including motion picture films but not including X-ray film), photographic plates and sensitized paper, 15 percent. No tax shall apply under this subparagraph with respect to sensitized paper for use in the reproduction of drawings, records, and other documents for industrial or commercial purposes.

The amendment was agreed to.

The next amendment was, on page 561, at the beginning of line 12, to insert "(a) increase in rate."

The amendment was agreed to.

The next amendment was, on page 561, after line 16, to insert:

(b) Exemption of members of armed forces of United Nations from tax on transportation of persons, etc.: Section 3469 (f) (2) (relating to exemptions from the tax on transportation of persons) is amended by inserting after the words "uniform of the United States" a comma and the following: "or to members of the military or naval forces of any of the other United Nations traveling in uniform of such nation."

The amendment was agreed to.

The next amendment was, on page 563, line 16, after the word "instruments", to insert "to watches designed especially for use by the blind."

The amendment was agreed to.

The next amendment was, on page 563, after line 23, to strike out:

Sec. 614. Exempt leases of water coolers.

Section 3405 (a) (relating to sales, etc., of cooling, etc., units) is amended by inserting at the end thereof the following new sentence: "The term 'sale' as defined in section 3440 shall not include the lease or renewal of a lease of a water cooler leased by a manufacturer, producer, or importer prior to October 1, 1941."

And insert:

Sec. 614. Refrigerators, refrigerating apparatus, and air-conditioners.

Section 3405 is amended to read as follows:

"Sec. 3405. Tax on mechanical refrigerators and self-contained air-conditioning units.

"There shall be imposed on the following articles (including in each case parts or accessories therefor sold on or in connection with the sale thereof) sold by the manufacturer, producer, or importer a tax equivalent to 10 percent of the price for which sold:

"(a) Refrigerators: Household type refrigerators (for single or multiple cabinet installations) having, or being primarily designed for use with, a mechanical refrigerating unit operated by electricity, gas, kerosene or gasoline.

"(b) Refrigerating apparatus: Cabinets, compressors, condensers, evaporators, expansion units, absorbers, and controls for, or suitable for use as parts of or with, household type refrigerators of the kind described in subsection (a) except when sold as component parts of complete refrigerators or refrigerating or cooling apparatus.

"(c) Air-conditioners: Self-contained air-conditioning units."

The amendment was agreed to.

The next amendment was, on page 565, after line 20, to insert:

(a) Increase in rate on gambling devices: Section 3267 (a) (2) and (3) (relating to rate of tax on gambling devices) is amended by striking out "\$50" and inserting in lieu thereof "\$100."

The amendment was agreed to.

The next amendment was, on page 566, line 15, after the word "cents", to insert "and if the only prize dispensed is merchandise and not cash or tokens"; and after line 17, to strike out:

(b) List of special taxpayers: Section 3267 is amended by adding at the end thereof the following new subsection:

"(c) List of special taxpayers: With respect to the year beginning July 1, 1942, the provisions of section 3275 (relating to a list of

special taxpayers) shall not be applicable to persons who have paid special tax with respect to coin-operated gaming devices as defined in clause (2) of subsection (b)."

(c) Effective date of amendments: The amendments made by this section shall be applicable to the year beginning July 1, 1942, except that no tax shall be payable with respect to an article, not taxable under section 3267 of the Internal Revenue Code before its amendment by this section for any period before the effective date of this title.

And insert:

(c) Effective date of amendments: The amendments made by this section shall be first applicable as follows:

(1) In the case of machines the rate of tax on which is increased, to the year beginning July 1, 1943.

(2) In the case of machines not subject to tax prior to such amendments, no tax shall be payable with respect to any period before the effective date of this title.

(3) In the case of machines if the limitation on the amount of the prize dispensed is 5 cents, to the year beginning July 1, 1942.

The amendment was agreed to.

The next amendment was, on page 567, after line 19, to strike out:

Sec. 618. Tax on pari-mutuel wagering.

Chapter 10 is amended by inserting at the end thereof the following new subchapter:

"SUBCHAPTER D—TAX ON PARI-MUTUEL WAGERING

"Sec. 1730. Tax.

"There shall be levied, assessed, collected, and paid on the conducting of pari-mutuel or totalizator wagering on any racing or other sporting event a tax in an amount equal to 5 percent of the total amount wagered and received into, on and after the effective date of this title, the pari-mutuel or totalizator pool, to be paid by the person conducting or having control of such pari-mutuel or totalizator pool.

"Sec. 1731. Returns and payment of tax.

"Every person liable to tax under section 1730 shall make returns under oath in duplicate and pay the tax to the collector for the district in which is located his principal place of business or, if he has no principal place of business in the United States, then to the Collector at Baltimore, Md. Such returns shall contain such information and be made at such times and in such manner as the Commissioner, with the approval of the Secretary, may by regulations prescribe. The tax shall, without assessment by the Commissioner or notice from the collector, be due and payable at the time so fixed for filing the return.

"Sec. 1732. Other laws applicable.

"All provisions of law, including penalties, applicable in respect of the taxes imposed by section 1700 shall, insofar as applicable and not inconsistent with the provisions of this subchapter, be applicable in respect to the tax imposed by section 1730."

The amendment was agreed to.

The next amendment was, on page 569, after line 19, to strike out:

Sec. 621. Transportation of property.

(a) Chapter 30 is amended by inserting at the end thereof the following new subchapter:

"SUBCHAPTER E—TRANSPORTATION OF PROPERTY

"Sec. 3475. Transportation of property.

"(a) Tax: There shall be imposed upon the amount paid within the United States after the effective date of this section for the transportation, on or after such effective date, of property by rail, motor vehicle, water, or air from one point in the United States to another, a tax equal to 5 percent of the amount so paid, except that, in the case of coal, the rate of tax shall be 5 cents per long ton.

Such tax shall apply only to amounts paid to a person engaged in the business of transporting property for hire, including amounts paid to a freight forwarder, express company, or similar person, but not including amounts paid by a freight forwarder, express company, or similar person for transportation with respect to which a tax has previously been paid under this section. In the case of property transported from a point without the United States to a point within the United States the tax shall apply to the amount paid within the United States for that part of the transportation which takes place within the United States. The tax on the transportation of coal shall not apply to the transportation of coal with respect to which there has been a previous taxable transportation.

"(b) Exemption of Government transportation: The tax imposed under this section shall not apply to amounts paid by or to the United States or any agency or instrumentality of the United States for the transportation of property.

"(c) Returns and payment: The tax imposed by this section shall be paid by the person making the payment subject to the tax. Each person receiving any payment specified in subsection (a) shall collect the amount of the tax imposed from the person making such payment, and shall, on or before the last day of each month, make a return, under oath, for the preceding month, and pay the taxes so collected to the collector in the district in which his principal place of business is located, or if he has no principal place of business in the United States, to the collector at Baltimore, Md. Such returns shall contain such information and be made in such manner as the Commissioner with the approval of the Secretary may by regulations prescribe.

"(d) Extensions of time: The Commissioner may extend the time for making returns and paying the taxes collected, under such rules and regulations as he shall prescribe with the approval of the Secretary, but no such extension shall be for more than 90 days.

"(e) Registration: Every person engaged in the business of transporting property for hire, including freight forwarders, express companies, and similar persons, shall, on or before the sixtieth day after the effective date of this section, or within 60 days after first engaging in the business of transportation of property for hire, register his name and his place or places of business with the collector in the district in which is located the principal place of business of such person. Every such person who fails to register within the period specified shall be guilty of a misdemeanor and upon conviction thereof shall be fined not more than \$50."

(b) Technical amendment: Section 3471 (a) and (b) are amended by striking out "or subchapter C" wherever occurring therein and inserting in lieu thereof "subchapter C, or subchapter E."

(c) Effective date of section: The amendments made by this section shall take effect on the first day of the first month which begins more than 30 days after the date of the enactment of this act.

The amendment was agreed to.

The next amendment was, on page 572, after line 11, to insert:

Sec. 620. Exemption from processing tax of palm oil used in manufacture of iron or steel products.

Section 2477 (relating to definition of first domestic processing) is amended to read as follows:

"Sec. 2477. First domestic processing defined.

"For the purposes of this chapter, the term 'first domestic processing' means the first use in the United States, in the manufacture or production of an article intended for sale, of the article with respect to which the tax is

imposed, but does not include the use of palm oil in the manufacture of iron or steel products, or tin plate or terne plate, or any subsequent use of palm oil residue resulting from the manufacture of iron or steel products, or tin plate, or terne plate."

The amendment was agreed to.

The next amendment was, on page 573, at the beginning of line 1, to insert:

Sec. 621. Cabaret tax.

Section 1700 (e) (1) (relating to rate of cabaret tax) is amended to read as follows:

"(1) Rate: A tax equivalent to 5 percent of all amounts paid for admission, refreshment, service, or merchandise, at any roof garden, cabaret, or other similar place furnishing a public performance for profit, by or for any patron or guest who is entitled to be present during any portion of such performance. The term 'roof garden, cabaret, or other similar place' shall include any room in any hotel, restaurant, hall, or other public place where music and dancing privileges or any other entertainment, except instrumental or mechanical music alone, are afforded the patrons in connection with the serving or selling of food, refreshment, or merchandise. A performance shall be regarded as being furnished for profit for purposes of this section even though the charge made for admission, refreshment, service, or merchandise is not increased by reason of the furnishing of such performance. No tax shall be applicable under subsection (a) (1) on account of an amount paid with respect to which tax is imposed under this subsection."

The amendment was agreed to.

The next amendment was, on page 573, after line 21, to insert:

Sec. 622. Sale and use of toilet preparations by beauty parlors, etc.

Section 2402 (b) is amended to read as follows:

"(b) Beauty parlors, etc. For the purposes of subsection (a), the sale of any article described in such subsection to any person operating a barber shop, beauty parlor, or similar establishment for use in the operation thereof and not for resale, shall be considered a sale at retail. The use in such operation of any article described in subsection (a) purchased by such person on or after the effective date of section 622 of the Revenue Act of 1942 for resale, shall be considered a sale at retail by such person at the time the article is first set apart for such use and at a price equivalent to the amount paid by him for the article."

The amendment was agreed to.

The next amendment was, on page 574, after line 10, to insert:

Sec. 623. Tax-free retail sales at post exchanges and ships' service stores.

Section 2406 (relating to tax-free sales of furs, jewelry, and cosmetics) is amended by changing the period at the end thereof to a semicolon, and adding thereto the following:

"(c) by a post exchange or ship's service store, operated under regulations of the War or Navy Department, to a member of the military or naval forces of the United States or to a member of the military or naval forces of any of the other United Nations, when in uniform, and delivered to him on the premises of the post exchange or ship's service store for his exclusive use."

The amendment was agreed to.

The next amendment was, on page 574, after line 22, to insert:

TITLE VII—SOCIAL SECURITY TAXES

Sec. 701. Automatic increase in 1943 rate not to apply.

(a) Clauses (1) and (2) of section 1400 of the Federal Insurance Contributions Act

(Internal Revenue Code, sec. 1400) are amended to read as follows:

"(1) With respect to wages received during the calendar years 1939, 1940, 1941, 1942, and 1943, the rate shall be 1 percent.

"(2) With respect to wages received during the calendar years 1944 and 1945, the rate shall be 2 percent."

(b) Clauses (1) and (2) of section 1410 of such act (Internal Revenue Code, sec. 1410) are amended to read as follows:

"(1) With respect to wages paid during the calendar years 1939, 1940, 1941, 1942, and 1943, the rate shall be 1 percent.

"(2) With respect to wages paid during the calendar years 1944 and 1945, the rate shall be 2 percent."

Mr. BARKLEY. Mr. President, I ask that the amendment on page 574, beginning in line 23, under the heading "Social security taxes," be passed over.

The PRESIDING OFFICER. Without objection, the amendment will be passed over.

That completes the committee amendments, with the exception of those passed over.

Mr. McNARY. Mr. President, I submit an amendment which I ask to have printed and lie on the table.

The PRESIDING OFFICER. The amendment submitted by the Senator from Oregon will be printed and lie on the table.

Mr. McNARY. Mr. President, I appeal to the able Senator in charge of the bill, as I have appealed on previous occasions to our eminent majority leader, that he agree to a recess at this time until tomorrow. We have made tremendous progress today.

Mr. GEORGE. Mr. President, I have no objection. We began work at 11 o'clock, and we have covered all the committee amendments except certain controversial amendments which have been passed over. I do not know how many amendments may be offered from the floor.

EXECUTIVE SESSION

Mr. BARKLEY. I move that the Senate proceed to the consideration of executive business.

The motion was agreed to; and the Senate proceeded to the consideration of executive business.

EXECUTIVE MESSAGES REFERRED

The PRESIDING OFFICER (Mr. McFarland in the chair) laid before the Senate messages from the President of the United States submitting sundry nominations in the Navy, which were referred to the Committee on Naval Affairs.

(For nominations this day received, see the end of Senate proceedings.)

EXECUTIVE REPORTS OF COMMITTEES

The following favorable reports of nominations were submitted:

By Mr. McKELLAR, from the Committee on Post Offices and Post Roads:
Sundry postmasters.

By Mr. VAN NUYS, from the Committee on the Judiciary:

Anton J. Lukaszewicz, of Wisconsin, to be United States marshal for the eastern district of Wisconsin;

Harold E. Stafford, of Hawaii, to be third judge of the First Circuit, Circuit Courts, Territory of Hawaii; and

John A. Matthewman, of Hawaii, to be fifth judge of the First Circuit, Circuit Courts, Territory of Hawaii.

The PRESIDING OFFICER. If there be no further reports of committees, the clerk will state the nominations on the executive calendar.

POSTMASTERS

The legislative clerk proceeded to read sundry nominations of postmasters.

Mr. McKELLAR. I ask that the nominations of postmasters be confirmed en bloc, and that the President be immediately notified.

The PRESIDING OFFICER. Without objection, the postmaster nominations are confirmed en bloc; and without objection, the President will be notified forthwith.

RECESS

Mr. BARKLEY. As in legislative session, I move that the Senate take a recess until 11 o'clock a. m. tomorrow.

The motion was agreed to; and (at 3 o'clock and 47 minutes p. m.) the Senate took a recess until tomorrow, Wednesday, October 7, 1942, at 11 o'clock a. m.

NOMINATIONS

Executive nominations received by the Senate, October 6 (legislative day of October 5), 1942:

IN THE NAVY

Rear Admiral John H. Towers to be a vice admiral in the Navy, for temporary service, to rank from the 6th day of October 1942.

Rear Admiral John S. McCain to be Chief of the Bureau of Aeronautics in the Department of the Navy, with the rank of rear admiral, for a term of 4 years, effective upon the relinquishment of that office by Rear Admiral John H. Towers.

Capt. Albert C. Read to be a rear admiral in the Navy, for temporary service, to rank from the 22d day of December 1941.

Capt. Elliott Buckmaster to be a rear admiral in the Navy, for temporary service, to rank from the 16th day of May 1942.

Capt. Charles P. Mason to be a rear admiral in the Navy, for temporary service, to rank from the 16th day of May 1942.

Capt. DeWitt C. Ramsey to be a rear admiral in the Navy, for temporary service, to rank from the 16th day of May 1942.

Capt. Alfred E. Montgomery to be a rear admiral in the Navy, for temporary service, to rank from the 29th day of May 1942.

Capt. Arthur C. Davis to be a rear admiral in the Navy, for temporary service, to rank from the 20th day of July 1942.

Capt. Frank D. Wagner to be a rear admiral in the Navy, for temporary service, to rank from the 25th day of July 1942.

CONFIRMATIONS

Executive nominations confirmed by the Senate October 6 (legislative day of October 5), 1942:

POSTMASTERS

ILLINOIS

Arthur M. Hetherington, Harrisburg.
Emil J. Johnson, Moline.

MISSISSIPPI

Ida F. Thompson, Dio.
Allen A. Edwards, Richton.

NEVADA

Lem S. Allen, Fallon.

TENNESSEE

Bernard R. Duncan, Linden.
Harry Robinson, Signal Mountain.

HOUSE OF REPRESENTATIVES

TUESDAY, OCTOBER 6, 1942

The House met at 12 o'clock noon.

Dr. T. L. Holcomb, executive secretary of the Baptist Sunday School Board of the Southern Baptist Convention, Nashville, Tenn., offered the following prayer:

O Lord, our Lord, how excellent is Thy name in all the earth. From childhood we have been taught to pray. We pause, therefore, in the midst of this busy day to seek Thy presence. We would be still and know that Thou art God. We pray for our Nation, from the Chief Executive to the humblest citizen. Bless our armed forces. Speed the day when peace should be established in the earth, grounded upon justice for all.

Heavenly Father, bless these representatives of the people in the performance of their duties. Grant unto each strength and wisdom to match the trying days through which the world is passing. These blessings we ask with the forgiveness of our sins, in Jesus' name. Amen.

The Journal of the proceedings of yesterday was read and approved.

EXTENSION OF REMARKS

Mr. ENGEL. Mr. Speaker, I ask unanimous consent to extend my remarks and include two editorials, one from the Washington Post of Sunday last and one from the Evening Star of yesterday.

The SPEAKER. Is there objection?

There was no objection.

Mr. ANDERSON of California. Mr. Speaker, on Friday last I asked unanimous consent to extend my remarks in the RECORD by the inclusion of a speech by Admiral Moreell. The Public Printer has informed me that it is two-thirds of a page longer than is usually granted. It will cost \$120 extra. I ask unanimous consent that the speech be printed, nevertheless.

The SPEAKER. Is there objection?

There was no objection.

UNIFORM SYSTEM OF BANKRUPTCY

Mr. McLAUGHLIN. Mr. Speaker, I ask unanimous consent to take from the Speaker's table the bill (H. R. 7121) to amend an act entitled "An act to amend an act entitled 'An act to establish a uniform system of bankruptcy throughout the United States,' approved July 1, 1898, and acts amendatory thereof and supplementary thereto," with a Senate amendment thereto, and concur in the Senate amendment.

The SPEAKER. The Clerk will report the title of the bill and the Senate amendment.

The Clerk reported the title of the bill and read the Senate amendment, as follows:

Page 22, after line 21, insert:

"ARTICLE X—TERMINATION OF JURISDICTION

"Sec. 755. The jurisdiction conferred upon any court by this chapter shall not be exercised by such court after November 1, 1945, except in respect of any proceeding initiated by filing a petition under section 710 hereof on or before November 1, 1945."

The SPEAKER. Is there objection?

Mr. MARTIN of Massachusetts. Mr. Speaker, I reserve the right to object. As